





THE STAFF OF LIFE — An elderly Georgian trying to augment his pension by reselling bread Friday in Tbilisi.

## An 'Anti-Berlusconi' Enters Italy's Political Fray

By Alan Friedman  
International Herald Tribune

ROME — Romano Prodi, the former chairman of Italy's giant IRI state holding company, said Friday that he will enter national politics and challenge former Prime Minister Silvio Berlusconi at the next general election.

The move by Mr. Prodi, 56, immediately raised expectations here that he could soon become the leader of a wide-ranging center-left coalition.

Mr. Prodi is a former Christian Democrat with a following of moderates that includes a variety of small centrist and

Catholic parties as well as many former Communists.

On Friday, Mr. Prodi was being hailed in the Italian media as the only national politician who commands enough support to serve as "the anti-Berlusconi."

Mr. Berlusconi, meanwhile, was demanding elections as soon as possible and was strengthening his ties with the rightist National Alliance.

"My aim," Mr. Prodi said in an interview, "is to offer for the first time in Italian political history a real choice that would lead to alternating governments."

Mr. Prodi made clear that he supports

the current government of Prime Minister Lamberto Dini.

"I'm against holding election until Mr. Dini has performed his important public service for the country, including deficit reduction and pension reform," Mr. Prodi said.

### Dini Meets With Clinton

Mr. Dini and President Bill Clinton held a working lunch on Friday in Washington.

The Italian leader stopped off at the White House on his way to a meeting in Toronto of top financial officials of the Group of Seven industrialized democracies.

## Yeltsin Confronted Defense Chief Over Fraud, Report Says

By Margaret Shapiro  
Washington Post Service

MOSCOW — Defense Minister Pavel S. Grachev, under attack for bungling the Chechen operation, checked himself into a Moscow hospital after President Boris N. Yeltsin confronted him with a document allegedly linking General Grachev to a secret German bank account, the newspaper Sevodnya reported Friday.

General Grachev has been linked to military corruption scandals before, but this is the most serious charge to appear. It comes amid growing calls for his dismissal after the military assault on Chechnya, which is widely unpopular and has resulted in thousands of deaths.

General Grachev's press secretary, Yelena Agapova, denied Friday that the defense minister was involved in any illegal dealings, and said that General Grachev was in the hospital for a routine medical check-up.

She said the German account was a legal one that was used to pay for the maintenance and withdrawal from Germany of Russia's Western Army Group. She called the Sevodnya story "just one more attempt to disinform everybody and blackmail the minister."

The Western Army Group has been the focus of several corruption investigations. Widespread allegations by top officials, allegedly with the knowledge of higher-ups in Moscow, have been reported.

A government investigation of the group was shut down more than two years ago. The investigator's job was eliminated in a reorganization.

General Grachev has denied charges of widespread military corruption.

Mr. Yeltsin, who received the general's military backing in the 1991 coup attempt and the 1993 uprising, has strongly supported him. But last fall, after a newspaper reporter looking into alleged corruption was murdered, Mr. Yeltsin dismissed General Grachev's chosen deputy, a general who had led the Western Army Group.

According to the Sevodnya article, which cited several sources in the presidential administration, Mr. Yeltsin confronted General Grachev on Jan. 25 with a document from the Defense Ministry's finance department showing an unauthorized Deutsche Bank account opened in 1992.

The newspaper said that as much as \$20.6 million had been in the account at times. Sevodnya's sources suggested that the money came from the sale of Warsaw Pact military supplies and fuel that was supposed to have been brought back to Moscow.

The document that Mr. Yeltsin showed General Grachev did not include the general's name or signature, according to the newspaper article, which was written by Sergei Parkhomenko.

General Grachev denied knowing the source of the money in the account and said he did not know why it had been deposited there, Sevodnya's sources said.

The general's attempts to persuade Mr. Yeltsin of his innocence "looked rather hopeless from the very beginning," the newspaper reported. "Grachev fell sick immediately after the incident" and sometime later checked into the hospital.

Previous reports suggested that General Grachev, 48, had checked into the hospital Jan. 30.

His press secretary said she expected that General Grachev would not remain in the hospital for long. "You shouldn't worry about the minister's health," she said.

### Report on Chechnya

Russian officials had no immediate response to an angry condemnation issued in Grozny, Russia, by a European defense organization, which said that Moscow was using excessive force to crush Chechen fighters. Reuters reported Friday.

Air attacks resumed after a lull of several days and many bombs were dropped around Grozny, the Chechen capital.

Officials of the Organization for Security and Cooperation in Europe, in a statement released after a visit of Chechnya, said that the organization's Permanent Council expressed "deep concern over the disproportionate use of force by the Russian armed forces."

Valeri Grishin, acting head of the Russian government center dealing with Chechnya, said officials were studying the text.

## WORLD BRIEFS

### Croat Aide to Visit Belgrade for Talks

SARAJEVO, Bosnia-Herzegovina (Reuters) — Foreign Minister Mate Granic of Croatia will visit Yugoslavia within a month in an effort to spur diplomatic recognition and reduce the threat of renewed war, Croatian government sources said Friday.

Mr. Granic will explore the prospects for peacefully ending the war over the future of the rebel Republic of Serb Krajina on deadlocked over the rebel Republic of Croatia, angered by the failure of the United Nations to restore the rebel republic to Zagreb's control, has ordered UN peacekeepers to leave Croatia by the end of March.

In Bosnia, meanwhile, UN peacekeepers reported an upsurge of fighting in the Muslim enclave of Bihać. Military observers said almost 250 tank, mortar and artillery rounds were fired in a four-hour exchange.

### Kobe Quake Toll Is Revised Upward

KOBE, Japan (AP) — The death toll from the Kobe earthquake increased by 139 to 5,243 Friday after private hospitals reported more victims from Japan's worst natural disaster in 72 years.

The police in Hyogo Prefecture, where Kobe is the largest city, said they were investigating 100 deaths that might also be added to the quake toll. Nobuo Hidaka, spokesman for the prefecture, said the police revised the death toll after surveying private hospitals where some of the injured later died.

The national police said six people were still missing and 26,804 had been injured in the Jan. 17 quake. The government said it planned a lottery to raise funds for reconstruction.

### Gingrich Is Upbeat on Haiti Mission

WASHINGTON (Reuters) — Newt Gingrich, the speaker of the House of Representatives, said Friday that the U.S. armed forces mission in Haiti was "going much better than one might have hoped."

Mr. Gingrich made the remark to reporters at the start of a meeting with the Haitian prime minister, Smanck Michel, who is on a two-day visit to Washington.

Mr. Gingrich said the U.S. operation had "worked much better than many of us thought it would, at least up to now." President Bill Clinton acted unilaterally in Haiti last year to restore President Jean-Bertrand Aristide to power. The peacekeeping operation is due to be handed over to the United Nations.

### Sweden Cancels Iran Official's Visit

STOCKHOLM (AP) — Sweden has canceled its invitation to a senior Iranian official under pressure from neighboring Norway, which is embroiled in a diplomatic fight over Iran's death sentence against the British writer Salman Rushdie.

Iran's deputy foreign minister, Mahmud Vaezi, was scheduled to stop in the Swedish capital on Feb. 7 and 8 during a tour of Scandinavia, after visiting Denmark.

But the Norwegians asked Sweden to block Mr. Vaezi's visit as a protest against Iran's call for the death of the India-born author of "The Satanic Verses." The Danish Foreign Ministry said Mr. Vaezi still planned to visit Copenhagen on Feb. 6 and 7.

### Kenya Warns Against Rebel Group

NAIROBI (Reuters) — Kenya said Friday that a Communist-led guerrilla movement based in a neighboring country was trying to create chaos and overthrow President Daniel arap Moi's government.

An official statement told Kenyans to remain vigilant and promised "decisive" action against people trying to undermine national security. The statement did not name Uganda as the country concerned, but strongly implied it.

The announcement specifically warned against "the subversive designs and activities directed against" the government "and our people by an organization calling itself February Eighteen Movement and its armed wing, February Eighteen Resistance Army."

### 13 Are Killed in Colombia Gun Battle

BOGOTA (Reuters) — Gunmen burst into a Colombian farmhouse where a family was praying for a murdered relative and sprayed mourners with bullets, killing all nine, the police said Friday. The youngest victim was a girl of three.

Minutes later, officers shot and killed three people inside a car used by the killers, the police said. A policeman also died in the gunfire, bringing the total number of victims to 13.

The massacre took place in the coffee-growing province of Caldas, about 210 kilometers (130 miles) northwest of Bogotá. The police chief in Caldas, Jorge Daniel Castro, said he believed the killings stemmed from a feud between families.

### NATO Moves Into Eastern Germany

BERLIN (NYT) — NATO grew a little bit bigger on Friday. With its first exercise on the soil of the former East Germany, the North Atlantic Treaty Organization staked its claim to 41,757 square miles (108,000 square kilometers) of what was enemy territory until just five years ago.

Ambassadors, defense ministers and military chiefs of staff from the 16 NATO member states were on hand to witness the occasion. "Another vestige of the divided Germany is gone," said the NATO secretary-general, Willy Claes, as the maneuvers began. "All of Germany is now protected by the alliance."

Under the treaty that paved the way for German unification in 1990, Russian troops were allowed to remain in Germany's eastern states until the end of 1994. German troops stationed there were excluded from the NATO structure until Jan. 1, 1995.

### For the Record

The Association of South East Asian Nations has decided to admit Vietnam as its seventh member, the Vietnam News Agency reported Friday. The agency, monitored in Tokyo, said the decision was reached at a meeting of ASEAN's Standing Committee on Jan. 26 in Jakarta.

Pavni Rantanen, 60, a former Finnish diplomat and political independent, was named foreign minister Friday. He is a former director of the telecommunications group Nokia. (AP) (AFP)

## TRAVEL UPDATE

### Britain Shelves New Runway Plans

LONDON (AFP) — Options for a third runway at London's Heathrow airport or a second runway at Gatwick "should not be considered further," Transport Secretary Brian Mawhinney said. In a parliamentary written answer, Mr. Mawhinney said that while analysis showed a strong case for additional runway capacity, any future development "must take account of environmental impacts." He said he would be commissioning further studies on the subject from the Civil Aviation Authority.

An earlier report said 3,300 homes would have to be demolished for a third runway at Heathrow and that the village of Charwood would be seriously affected by a new runway at Gatwick.

Two new air links between the United States and Britain as well as a cooperative agreement between airlines to ease travel between the countries have been approved by the U.S. Transportation Department. Delta Air Lines and Virgin Atlantic Airways were given permission to offer shared service between seven U.S. cities and London. New service to England was approved for American Airlines between Chicago and Birmingham, Alabama, and for Tower Air between New York and London's Stansted Airport. (AP)

Flights at Paris's two main airports were again delayed by an average of about half an hour Friday as a firemen's strike went into its second day, airport officials said. At both Orly and Charles de Gaulle airports, only one of the two runways normally open was in service. (Reuters)

A 16th-century palace where the Medici family once entertained and now the Senate debates is being opened up for tourists. Palazzo Madama became the Senate seat in 1870, when Rome became the capital of united Italy. It will open for eight hours the first Saturday of every month for 45-minute guided tours. (AP)

The United States has advised Americans in Bahrain to keep away from large public gatherings and to exercise caution following recent demonstrations in the Gulf emirate. The State Department said American-owned property had been damaged in acts of vandalism. It also said that conservative dress "may be appropriate" during upcoming Ramadan observances. (AFP)

## Ireland Releases 5 IRA Prisoners

### Move Signals Effort to Sustain Truce

By James F. Clarity  
New York Times Service

DUBLIN — In a move designed to encourage the Irish Republican Army to sustain its five-month-old cease-fire in Northern Ireland, the Irish government on Friday released early five of the 30 IRA convicts held in Irish prisons.

Last December, Dublin released nine prisoners early.

Officials and analysts said that the release was directly related to efforts to keep alive the cease-fire, which the IRA began on Sept. 1.

It also was seen as a concession to strengthen the position of Gerry Adams, the president of Sinn Féin, the IRA's political wing. Mr. Adams is credited with having persuaded the IRA military commanders to suspend their 25-year campaign to force Britain to relinquish power in the province of Ulster.

The release came two days after the peace effort was ruffled by a newspaper leak of a British-Irish plan for the talks that outraged unionist leaders in the north. The Protestants charged that the plan envisions joint authority shared by Dublin and London over a new united Ireland, in which the Protestant majority in the north would be subsumed. The London and Dublin governments say the plan is a set of guidelines for discussion at formal peace talks that would include Sinn Féin.

Irish politicians, including Prime Minister John Bruton and Bertie Ahern, the head of opposition in Parliament,

sought to calm the storm, as have Prime Minister John Major of Britain and the leader of the opposition, Tony Blair of the Labor Party.

Of the controversial Irish-British guidelines for full-fledged negotiations, Mr. Bruton said: "There are issues remaining to be settled. But we're not going to get stuck on sticking points. We're going to get over them."

He added that teams of Irish and British officials had held a productive meeting Thursday on the plan.

Mr. Ahern, head of the Fianna Fail party, said that the points now in dispute "will be irrelevant in six months' time, when we will be in formal negotiations." The goal of the Irish-British plan is to bring Sinn Féin to negotiations with the two governments and with other northern parties.

Former Prime Minister Garrett FitzGerald said that much of the problem this week was the result of internal politics in the moderate Ulster Unionist Party, with some politicians seeking to weaken the party leader, James Molyneux.

The prisoners released early had been serving terms that would have expired in two or three years.

Prime Minister Bruton said he hoped Britain would consider early release for some of the 800 IRA prisoners it holds in the North.

In London, a government spokesman said no early releases were being considered.

## Jews Assail Ruling on Nazi 'Myth'

New York Times Service

BONN — A German court stirred outrage among Jewish leaders and opposition politicians on Friday by acquitting two neo-Nazis who used a telephone answering service to describe the Auschwitz death camp as a myth.

The case recalled a court ruling in August, when Günter Deckert, head of the neo-Nazi National Democratic Party, was given a one-year suspended sentence for denying that the Holocaust took place. The Federal Court of Justice later called the sentence too lenient and ordered it reviewed.

In the latest incident, Andre Goertz, 24, and Jens Siefert, 23, were accused of incitement to the slandering the memory of the dead after recording a message on an answering machine used to advertise the activities of far-right groups.

"A film by Spielberg wins an Oscar," the message said, referring to the Steven Spielberg movie "Schindler's List." "He stands up against Nazi Germany, others join in, he keeps the Auschwitz myth alive and he gets seven Oscars for film of the year."

The message was recorded in March 1994, but the court ruling came only days after commemorations in Poland of the 50th anniversary of the liberation of Auschwitz by Soviet troops on Jan. 27, 1945.

German law forbids propagation of the "Auschwitz lie," meaning the assertion that the camp — where about 1.5 million people died, most of them Jews — did not exist.

But the opposition Social Democrats said that the ruling, handed down Thursday by a court in Hamburg, had allowed extreme rightists to find an alternative expression to convey the same message.

"It was to be expected that neo-Nazis and other right-wing extremists would come up with new phrases to avoid saying 'Auschwitz lie' but mean the same thing," said Cornelia Sonntag-Wolgast, a Social Democrat legislator.

The government of Chancellor Helmut Kohl made no immediate comment. But the public prosecutor's office in Hamburg said that it would challenge the court's ruling.

"We have to understand that lower-court judges don't have the last word," said Ignatz Bubis, head of the Central Council of German Jews.

He said that the expression "Auschwitz myth" gave the impression that the death camp was "a fairy tale."

Michel Friedman, a member of the Central Council, said the court's decision showed that German judges still had difficulty dealing with what he called "mental arsonists who use words as their weapons."

"Rulings like this are wrong," he told a radio interviewer. "They encourage the wrong people, namely those that want to bring inhumanity, discrimination, racism and anti-Semitism to the fore."

## 'Auschwitz' Fashions Draw Jewish Rebuke

By Suzy Menkes  
International Herald Tribune

PARIS — The World Jewish Congress on Friday condemned the display of men's pajamas in a fashion show that it says suggest the uniforms of Auschwitz inmates.

Serge Cwajgenbaum, secretary-general for Europe of the Congress, who viewed the outfits Friday at the Paris headquarters of the Tokyo-based Comme des Garçons, will issue a formal statement Monday, his Paris office said.

The striped clothes, and others bearing prints of identification numbers and marks of military boot prints, were shown on Jan. 27 during the French menswear fall-winter season. Asked then what was the significance of her fashion statement, the designer Rei Kawakubo, 52, replied through an interpreter: "The meaning is there is no meaning."

In a statement issued Friday, Mrs. Kawakubo said the theme of the show was "sleep," hence the pajamas. "The fact that it was so completely misunderstood has caught me by surprise and made me very sad," she said. "Personally, I have always deeply respected the Jewish people and felt close to them in my heart. I have visited Israel in that spirit."

Adrian Joffe, the head of Comme des Garçons in Paris, said the numbers were "a naive expression, like a child drawing on a wall."

Mr. Cwajgenbaum could not be reached for comment after visiting Comme des Garçons. But he said earlier that he was concerned about the "banalization" of images of Jewish suffering and unhappy about the increasing use in fashion of iconography of World War II, including Nazi uniforms, insignia and jackboots.

He said he had also approached Jean-Louis Scherrer, whose haute couture collection in Paris last week featured military uniforms and caps identified with 1930s Berlin.

Mrs. Kawakubo had been criticized for a 1994 collection showing recycled military uniforms, which were seen as a reference to the Bosnian conflict. Karl Lagerfeld apologized last year to Muslims and withdrew and destroyed a dress from a Chanel collection that was embroidered with a script from the Koran.

Also in 1994, the widow of a judge killed by the Mafia condemned Dolce & Gabbana of Milan for citing mafiosi as its inspiration.

## Major Rejects an EU Currency

Reuters

LONDON — Prime Minister John Major said Friday that the European Union could be torn apart by a single European currency and that his government would soon suggest new conditions for joining such a plan.

Mr. Major, whose Conservative Party is in disarray over disagreements on Europe, tried to reassure the "Euro-skeptics" in his party by saying he would resist moves toward "centralism."

"I will tell you my fear. Unless economic circumstances were right, a single currency would tear the European Union apart," Mr. Major told the Conservative Way Forward, a night-wing grouping of party members.

"We cannot accept that sterling should be part of a single currency by 1996 or 1997," he said.

He said that the expression "Auschwitz myth" gave the impression that the death camp was "a fairy tale."

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1989 directive called "Television Without Frontiers," which requires broadcasters to ensure that at least half their production is made in Europe. It had made it easier, he said, for European productions to circulate freely within the Union.

Mr. Mitterrand said he backed the government's battle to protect European cultural identity. "I love American culture as you do," he said, "but I also like French culture and sometimes more." Many Europeans, he said, shared his fear

said. "We don't believe anyone could sensibly want to go ahead then, but if they do, we wouldn't be with them. Nor can we accept any prejudgment, one way or the other, about some unknown time in the future."

Mr. Major added: "Nor will we agree to a more prescriptive, centralist Europe, or removal of the nation-state's veto."

Criteria on a single currency agreed to in the Maastricht treaty on closer European union were no longer sufficient, he said, adding that the chancellor of the exchequer, Kenneth Clarke, is to "go into further detail on this next week."

Mr. Major has been trying to appease those in his party who want at most a loose union with Europe. They fear a Brussels bureaucracy that could destroy Britain's sovereignty.

Nine Conservatives were suspended from or quit the parliamentary party in December after a dispute over contributions to the EU budget. Since then, Mr. Major's government has technically been in a minority.

But instead of taking a hard line with the rebels, Mr. Major, once staunchly pro-European, has been adopting a tougher stance toward Brussels, much to the dismay of Foreign Secretary Douglas Hurd and other pro-Europeans in the party.

Mr. Hurd told an audience in Scotland on Friday that Britain had won key battles to influence the bloc in favor of free trade and economic deregulation, and added: "There is a message there for anyone tempted to suggest we have nothing to gain from rolling up our sleeves and engaging in the European debate."

Many experts argue that a quota system would be impossible to carry out given the multiplication of satellite broadcasting. Britain, in particular, is energetically opposed to quotas.

Mr. Santer said the European Commission would conduct a review of the issue next week before a meeting of European culture ministers Feb. 13 and 14. Every possibility of helping the European film and television industry would be discussed, he added.

## SANTER: Under French Pressure, Quota Stand Eases

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that European culture was in danger of being swamped by American imports, but he acknowledged that culture was also one of the areas in which it was most difficult to find consensus in Europe.

The powerful U.S. television and film industry has lobbied strongly against quotas. But it failed to obtain a completely open market in the world trade treaty last year, after France argued successfully that cultural products should be excluded from the agreement.

## THE AMERICAS / 1996 NUMBERS

## ★POLITICAL NOTES★

## Clinton's Legal Defense Fund Is Faltering

WASHINGTON — Hoping to encourage more contributions, the defense fund set up by President Bill Clinton to defray his expensive and mounting personal legal bills reported Friday that by the end of December it was more than \$830,000 short of the amount it needed to pay his legal bills for 1994.

The fund's difficulty in raising enough money to meet even half of Mr. Clinton's legal expenses is the latest indication of his limited popularity. Moreover, after the president was criticized by Republicans last month for using his State of the Union address to attack campaign contributions by lobbyists, he instructed the trust to impose new restrictions that will prevent any new money to be donated to the fund by lobbyists, a move that will make it harder for the fund to raise money this year.

Restricted by an ethics opinion from soliciting donations and by its own limitations from taking more than \$1,000 from any single contributor, the trust raised \$608,000 in its first six months of existence, about half of the more than \$1.2 million needed to pay Mr. Clinton's legal bills.

As of the end of December, the trust was left with \$143,969 in cash after it had paid its own expenses as well as some of the president's legal bills for the Whitewater investigation and the sexual harassment lawsuit filed by a former Arkansas employee. Left outstanding are legal bills from last year that total nearly \$1 million, the fund's officials said.

Although the fund has gone a long way toward reducing the financial burden on the Clintons, the large legal bills could threaten to eat into the family's assets. In their latest financial disclosure statement, which covers the period through the end of 1993, the Clintons listed their net worth as between \$633,015 and \$1,620,000, making them among the least affluent occupants of the White House in modern times. Most of the family's wealth is in the name of Hillary Rodham Clinton.

Mr. Clinton has retained two of the most expensive law firms in the nation, and both have assembled teams of high-priced lawyers, some of whom charge more than \$400 an hour. The lawyers have spent thousands of hours investigating the allegations involving the Whitewater investigation and the harassment lawsuit filed by Paula C. Jones. (NYT)

## Clinton Seeks 2-Step Minimum Wage Rise

WASHINGTON — Defying solid Republican opposition, Mr. Clinton proposed Friday that the minimum wage be increased by 90 cents an hour over two years.

"The only way to grow the middle class and shrink the underclass is to make work pay," Mr. Clinton said in a Rose Garden ceremony. "In terms of real buying power, the minimum wage will be at a 40-year low next year if we do not raise it above \$4.25 an hour." He proposed two 45-cent increases over two years, to \$5.15.

Chances of such an increase being approved by Congress are dim because the majority Republicans strongly oppose it. The last increase, 45 cents an hour, was in 1991. In a measure of the difficulty the proposal will face, not one Republican legislator attended the ceremony. (AP)

## New Surgeon General Starts Out Reluctant

WASHINGTON — Mr. Clinton has named Henry Foster Jr., a gynecologist from Tennessee, as surgeon general to succeed Joycelyn Elders, who was dismissed from the post.

"No comment," Dr. Foster quipped at the Oval Office, when reporters asked Mr. Clinton if he would let Dr. Foster be as outspoken as Dr. Elders. She was dismissed in November after saying that public schools should consider teaching about masturbation.

Many of the same groups who denounced Dr. Elders said they were no more satisfied with Dr. Foster than they had been with her. In his hometown of Nashville, Dr. Foster was active in Planned Parenthood, which provides abortion counseling, and was a founder of a youth group operating out of two public housing projects that encouraged young people to delay sexual activity but also distributed condoms.

Dr. Foster, 61, is a former acting president of Meharry Medical College in Nashville, one of four historically black medical schools in the United States. Like Dr. Elders, he is an Arkansas native. (WP)

## Quote/Unquote

Newt Gingrich, the speaker of the House of Representatives, cautioning that trouble lies ahead on several planks of his Contract With America: "I'll be quite frank with you. I think term limits is going to be very hard to pass, and I think litigation reform is just going to be a brawl." (NYT)

## Clinton Budget Targets 130 Programs for Elimination

By Robert Pear

WASHINGTON — President Bill Clinton will propose \$1.6 trillion of spending in his 1996 budget, and he would more than offset the cost of a middle-class tax cut with savings in other areas of the budget. But he still falls far short of Republican demands for a balanced budget in the year 2002.

Mr. Clinton's budget request, to be submitted to Congress on Monday, shows a deficit of \$196.7 billion for the 1996 fiscal year, up slightly from the \$192.5 billion that he projects for this year.

Although his budget message boasts that his economic policies have sharply reduced the deficit from record levels, he says the deficit will probably stay in the range of \$190 billion through 2005.

The budget is always a political document, and a theme of Mr. Clinton's 1996 budget is that he wants to "work with Congress," now controlled by Republicans. Indeed, he appears to be in a race with them as he tries to eliminate or consolidate programs or trans-

fer them to the states or to private industry.

In parts of his budget, Mr. Clinton echoes the House speaker, Newt Gingrich.

"The American people remain deeply dissatisfied with how their government works," the budget says. "Many programs, perhaps even whole agencies, have outlived their usefulness."

In confidential galley proofs of the budget, Mr. Clinton says he could "save \$2 billion by ending more than 130 programs" and "provide better service to Americans by consolidating more than 270 other programs."

For example, he asks Congress to abolish the Interstate Commerce Commission and eliminate the role of the Army Corps of Engineers in smaller projects such as the control of beach erosion, local flood protection and the construction of recreational harbors.

He says private meteorologists should take over some functions of the National Weather Service. He would rely on private businesses to track and communicate with spacecraft like the space shuttle. And he asks Congress to terminate 37 small "low-priority" education programs.

But budget documents show that Mr. Clinton will propose a major increase in his national service program, AmeriCorps, which has been denounced by Mr. Gingrich as a form of "coerced volunteerism."

The number of participants, now 20,000, would rise to 33,000 at the end of this year and 47,000 next year under Mr. Clinton's proposal. For the corps' parent agency, which operates several volunteer programs, he requests \$1 billion in 1996, an increase of \$290 million over this year's appropriation.

Mr. Clinton says his economic policies have slashed the deficit from the record \$290 billion of 1992. Still, his proposals would require additional federal borrowing of nearly \$1 trillion over five years, and the federal government would spend \$194 billion more than it collects in revenue in the year 2000.

Mr. Gingrich's "Contract With America" calls for eliminating the def-

icit by 2002, but the Republicans have not specified the cuts needed to achieve that goal.

The president's \$1.6 trillion budget for 1996 breaks down this way: \$262 billion, or about 16 percent of the total, for the military; \$351 billion, or 22 percent, for Social Security benefits; \$271 billion, or 17 percent, for Medicare and Medicaid; and \$257 billion, or 16 percent, for interest on the federal debt, the accumulated total of federal borrowing.

Only \$21 billion, or 1.3 percent of the total, is for foreign aid and other international activities.

The president and the Republicans have agreed that the Social Security retirement program is off-limits in their quest for savings, and Mr. Clinton has said he will not tamper with Medicare, the federal health-insurance program for people who are elderly or disabled. The parallel program, Medicaid, provides health care for the poor.

The proposal means that a large share of the cuts must come from domestic programs subject to annual appropriations: activities such as law enforcement, scientific research, highway construction and environmental protection. These account for \$266 billion, or about 17 percent of the budget.

The remainder — \$184 billion, or 11 percent of the total — is for benefit programs such as welfare, food stamps, Civil Service pensions and veterans' benefits, which are automatically available to people who meet eligibility criteria.

In his budget message, Mr. Clinton says: "Now that we have brought the deficit down, we have no intention of turning back."

Mr. Clinton estimates that his tax cut, including a new tax credit for children and a new deduction for college expenses, will cost the Treasury \$63 billion over five years.

But he said he was proposing enough spending cuts to provide more than twice as much in budget savings — \$144 billion — as the tax cuts will cost. He asserts that the net effect would be to save \$81 billion.

## The Capital's Mayor Asks U.S. for Help

## Barry Says Deficit Is Too Big

By Howard Schneider and David A. Vise

WASHINGTON — Mayor Marion Barry of the District of Columbia says that the city's 20-year-old home rule government has become unworkable and has proposed that federal authorities take over municipal welfare, medical, court and corrections programs, a move that would dismantle major parts of the local bureaucracy he helped build in the 1980s.

Saying the city can no longer survive "half-slave, half-free" — paying for the services of a state government without a state's taxing authority — Mr. Barry acknowledged that the city cannot resolve its projected \$722 million budget deficit without substantial help from the U.S. government.

He asked for \$267 million in one-time aid to rescue the city from skyrocketing Medicaid costs, a proposal that even the city's defenders said was not likely to be approved without greater congressional oversight of the district's finances.

But Mr. Barry also called for a dramatic reduction of the district government's role, saying that its structure was flawed from the beginning and that now was time to right the imbalance.

Under his plan, the federal government would take over both St. Elizabeth's Hospital for the mentally ill and the Lorton Correctional Complex. It also would pay the costs of operating the D.C. Superior Court, and the D.C. Court of Appeals, and assume the city's share of financing the Medicaid and Aid to Families With Dependent Children programs.

In return, he pledged to cut the wages of city workers by 10 percent, to reduce the work force by 4,000 people and to act aggressively on about \$200 million in budget cuts already approved by the D.C. Council.

The city's credibility is ebbing on Capitol Hill, Mr. Barry said, but at this point its problems are beyond the district's capacity to solve.

Mr. Barry said that in 1974, when Congress gave that district control of the district and gave residents the right to elect municipal leaders, "we were so anxious to show we could take care of ourselves" that the city agreed to take on the job of

running prisons and welfare programs typically left to states. "We never should have," Mr. Barry said, and now it was time to give them back.

Several of the ideas the mayor floated already have been mentioned on Capitol Hill, and reaction to them has been mixed. A federal takeover of the prison at Lorton, for example, already is in the works.

More controversial, however, was his request for a \$267 million grant to resolve massive overspending in the city's Medicaid program, some of it discovered only recently through audits. Even the city's allies in Congress have made clear that the city would not get any more cash until they were convinced that local spending was under control. So far, they say, it is not.

Mr. Barry's broader proposal — to turn some city functions over to the U.S. government — may find favor with Congress, the speaker of the House, Newt Gingrich, said this week.

"We are the state for this city," the Georgia Republican said. "We have an obligation." Medicaid may be in for the biggest changes. Even if Congress refuses to take over the services Mr. Barry wants to surrender, administration officials say they plan to curtail Medicaid spending drastically.

The district has provided an unusually generous version of Medicaid, the health insurance program for the poor and disabled that is run jointly by the federal government and the states. Last year, Medicaid paid the bills for care by doctors, nursing homes and hospitals for one in four district residents, a mammoth undertaking that will cost the city nearly a half-billion dollars this year unless the federal government steps in.

## 2 Carriers to Be Named For Truman and Reagan

Reuters

WASHINGTON — President Bill Clinton has ordered the U.S. Navy to name two new aircraft carriers in honor of former Presidents Harry S. Truman and Ronald Reagan.

Mr. Clinton said Mr. Truman and Mr. Reagan reflected "ideals of patriotism, camaraderie and courage" in protecting U.S. national security.

## Away From Politics

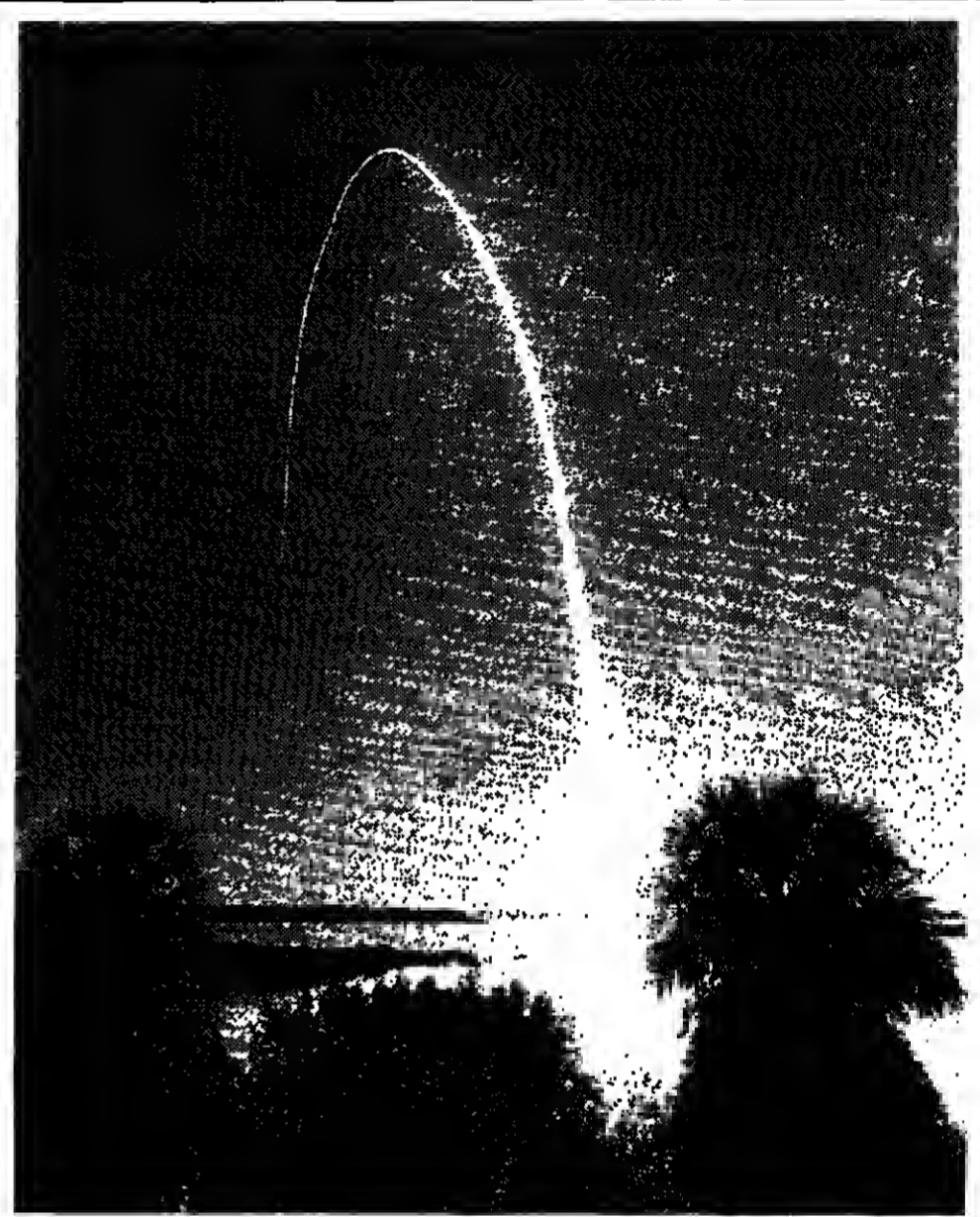
• A powerful wave hit a brother and sister as they scattered their mother's ashes off the coast near Mendocino, California, sweeping the sister away. Searchers were unable to find Debbie Menta, 32; Doug Painter, 23, was hospitalized and remained in stable condition. (AP)

• Twenty-one black people have been banned from several stores in Union Point, Georgia, after the police put them on a list of potential shoplifters. Police Chief Richard R. Reese said the list included only people police had dealt with regularly for shoplifting. (AP)

• Sheikh Omar Abdel Rahman, the accused leader of a plot to bomb several U.S. landmarks, said in a videotape played before a Manhattan federal jury that the United States is Islam's enemy and that the Koran permits terrorism against its foes. (Reuters)

• Robbers locked a 72-year-old woman in a closet, and she died trying to scratch her way out. The woman's body was found at least a month after she died, said police in West Hollywood, California. (AP)

• A Minneapolis ice-cream maker linked to a salmonella outbreak reached a tentative agreement in a lawsuit filed on behalf of thousands of people who say they fell ill after eating Schwan's ice cream. Schwan's Sales Enterprises Inc. will pay compensation of \$80 to \$75,000 per person, depending on the severity of the illness. (AP)



ARC OF DISCOVERY — The space shuttle Discovery lifting off on Friday from Cape Canaveral, Florida, in a time exposure. The shuttle, which is to rendezvous with Russia's Mir space station, encountered problems with its maneuvering thrusters.

## AIRPORT: Home for Homeless

Continued from Page 1

traffic. They do not seem dirty or aggressive. They rarely panhandle.

Most are mentally ill, but not a threat to themselves or others. Some are well educated. They prefer the conditions at the airport to those in the street.

Their lives, however, are as motley as those of any homeless people.

Miss Vierck, a Wisconsin native, said she was sent to the airport by Jesus Christ after a short-lived dalliance with a man named Joseph from Queens.

Al Samuel, 32, a string bean of a man who grew up in the Bronx, became homeless after losing his job as a data-entry clerk on Wall Street in 1988.

Joined out of a deep sleep on a subway train by a policeman one morning in 1991, he saw a sign advertising living on and off at Kennedy and La Guardia airports ever since. He prefers Kennedy's Delta terminal, with its views of Jamaica Bay and a runway where he can watch planes landing and taking off.

There is also a woman with braces on both legs whose name no one knows. She folds herself like a package into a phone booth at night.

Of all the places the homeless reside in New York City, the airports, so far from Midtown, seem the least likely. But as the Transit Authority has gradually added buses to the takeoff points near the city outskirts, the airport terminals have become easier to reach.

The airport homeless are not unique to New York. Last month in Honolulu, airport workers circulated a petition asking authorities to evict the 50 people who live at the city's airport because they felt threatened, officials there say. In Chicago, the city opened an 80-bed shelter four years ago to draw the homeless from O'Hare Airport after things went too far. Some people brought in plants to decorate their corners.

It takes some ingenuity for a homeless person to end up at an airport; if it didn't, the terminals would be littered with people, Mrs. Schwartz said.

Those who find their way to Kennedy are drawn by its creature comforts. Even the garbage is of a higher quality, rummagers said. And the safety, the warmth and the supply of bathrooms and restaurants are unparalleled. It is like living in a 24-hour mall.

The homeless are more readily apparent to the police than to others because they see them daily. They cannot arrest them, unless they are a nuisance, but they do ask them to leave, knowing that the people simply wander around or take a shuttle bus to another terminal.

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## Peres Sees No Israeli Giveaway

### Palestinians Say Peace Is Stalled

**JERUSALEM** — Foreign Minister Shimon Peres said Friday that Israel had profited from the Cairo summit meeting with its Arab peace partners by not backing down over disputes, but Palestinian officials said Israel's attitude had blocked the peace process.

"I must say that, in my opinion, on the issue of nuclear weapons, on the issue of settlements, on the issue of redeployment, we profited in two ways: We didn't back away from our positions and we didn't create a confrontation," Mr. Peres told Israeli radio.

But he indicated that the government would ease the closings of the Gaza Strip and the West Bank, which were imposed after the Islamic Jihad group killed 21 Israelis in two bomb attacks Jan. 22.

"Regarding the closure, in my opinion, we should begin lifting it slowly," Mr. Peres said.

But the ban remained firmly in force Friday, limiting the turnout for the first Friday prayers in Jerusalem in the Muslim holy month of Ramadan.

Prime Minister Yitzhak Rabin discussed the ban with security officials Friday. His spokesman said he would recommend to the cabinet on Sunday "to ease the situation in humanitarian instances among the residents."

The head of local government in the Palestinian self-rule authority, Saeb Erekat, said Mr. Peres's statement showed that Israel's goal in Cairo had been to gloss over problems in the peace process. Mr. Rabin met with President Hosni Mubarak of Egypt, King Hussein of Jordan and Yasser Arafat of the Palestine Liberation Organization.

"It seems to me they want to win the elections" in Israel and "not to win the peace," Mr. Erekat said. "The point of this summit in Cairo was the peace process having reached a dead-lock and it was created by this kind of attitude."



A Palestinian gesturing as he tried to argue his way by an Israeli police officer Friday at a Jerusalem checkpoint. Many Muslims were prevented from attending the traditional first Friday of Ramadan prayers at the city's Al Aqsa Mosque.

## Paris Proposes Algeria Talks

### Mitterrand Wants EU to Back a Conference

By Youssef M. Ibrahim  
New York Times Service

**PARIS** — President François Mitterrand suggested Friday that the European Union host peace talks between the Algerian opposition and the government, defining further what appears to be an evolving European position on the need to bring an end to the civil war in the North African country.

Mr. Mitterrand's comments followed those of other senior French officials, including the defense and foreign ministers, who in the past few days have urged the military-backed government of Algeria to abandon its offensive against Islamic fundamentalists, which has cost up to 30,000 lives in the last three years.

"If the European Union could organize in Europe a conference that would be inspired by various ideas proposed recently, notably at the opposition meetings in Rome," Mr. Mitterrand said, "there might be more of a chance of seeing these proposals recognized by rival parties."

The French president was referring to last month's gathering in Rome of eight secular and religious opposition parties that called for a cease-fire and the release of political prisoners.

Mr. Mitterrand added, however, that both he and Chancellor Helmut Kohl of Germany agreed in talks that financial aid to the Alger-

ian government, which fundamentalist Muslims want stopped, should continue.

Bonn has significant interests in Algeria and many fundamentalist opponents of the regime there live in Germany.

The French president's comments are bound to be seen by the Algerian government as further pressure to compromise with its opponents, largely because France plays the crucial role in propping up the present government through financial, intelligence and military aid.

Until just a few months ago, the French attitude was far more aggressive in its support of the government's campaign to "eradicate" Muslim fundamentalist opposition.

But the failure of the Algerian Army to score significant or permanent results and the danger that the conflict may spill over into France and Europe appear to have had an impact.

Last year, scores of Muslim fundamentalist North Africans were expelled from France after being implicated in underground networks believed to be seeking to smuggle weapons to Algeria's fundamentalist organizations.

In December, four Algerian Muslim terrorists hijacked an Air France plane, killing three passengers before being shot and killed in Marseille by French commandos, who stormed the aircraft.

## FLOOD: Danger for Dikes

Continued from Page 1

ization, the police say they will stop them.

The floods have been the Netherlands' heaviest in 40 years, and the evacuation of so many people has been the biggest peacetime operation of its kind in a region that has known much upheaval.

During the Second World War, it was convulsed by historic battles for bridges over the same rivers as have now burst their banks.

The reason people are not being allowed home, said Inspector Mark Cobussen, a police officer here, is that the dikes "are full up with water and people don't know what their condition will be in two, three, four days."

"The water outside the dike is going down very fast, but the water in the dike itself is not, so it's possible that the top of the dike could slide off and there'd be a flood," he said.

According to other officials, water usually seeps into a dike at an angle planing downwards from the side facing the river to the other side.

That angle then turns into a kind of fault line, with the earth above it unstable and liable to slip down into the farmland and villages the dike is supposed to shield.

For that reason, the Dutch police and army have sought to seal off the villages under the dikes in this region, and the Interior Minister, Hans Dijkstal, has urged people to stay away from the flood zone and refrain from what he termed "disaster tourism."

In Tiel on Friday, streets were empty in the way urban war zones are usually deserted, save for a cruising police patrol car whose occupants ordered a reporter to leave.

Up until Friday, the damage caused by the flood across Europe was estimated at about \$2 billion, and 29 people across Europe had lost their lives.

But according to Dutch accounts, the figures for financial losses may be higher because the 16,000 businesses and stores forced to close by the evacuation in this region are losing an estimated \$84 million a day.

"That is only the damage from lost revenues," said Fre Vosseman, a spokesman for traders and industrialists in this region.

Elsewhere along Europe's river network, plied by hundreds of barges every day, German authorities allowed shipping to resume on parts of the Rhine where about 2,000 barge operators have been idle since the rivers began to swell 10 days earlier.

## Ecuador And Peru Study Draft Of a Truce

RIO DE JANEIRO — The governments of Ecuador and Peru were studying a preliminary cease-fire accord Friday that could end clashes on their Amazon jungle border, a diplomat said.

Brazil's deputy foreign minister, Sebastião da Rego Barros, said it was "possible" to reach an agreement that would be acceptable to both countries.

The proposed accord, reached after three days of negotiations, has been sent to Lima and Quito for action as well as in the capitals of the four guarantor nations — Argentina, Brazil, Chile and the United States.

Mr. Rego Barros urged Peru and Ecuador to "put an end to this senseless war and to the useless loss of human lives." He would not disclose the contents of the accord.

At least 11 Peruvians and 5 Ecuadorians have been killed in the fighting, although scores may have died.

Peru claims to have killed 43 Ecuadorian soldiers and to have lost 11 of its men during the conflict. Ecuador says 33 soldiers have been killed, 28 of them Peruvians.

Fighting continued Thursday after Peruvian troops, backed by helicopter gunships and bombers, attacked Ecuadorian positions.

The dispute centers on a 340-square-kilometer (130-square-mile) area in the region known as the Cordillera del Condor, which has yet to be demarcated as called for in a 1942 treaty. Argentina, Brazil, Chile and the United States are the guarantors of the treaty, which ended a 10-day war in which Ecuador lost about half its territory to Peru.

Ecuador rejected the treaty in 1960, and border conflicts have often erupted near the Jan. 29 anniversary of the protocol.

The Rio talks came close to collapse Thursday, but then negotiators presented last-minute cease-fire proposals.

## 2d Witness Saw Men Near Simpson Site

**LOS ANGELES** — A new witness has come forth in the O.J. Simpson double-murder case to say that he saw four men near Nicole Brown Simpson's home the night she and a friend were slashed to death.

The witness, Leif Tilden, an actor and puppeteer who lives in the area where the slayings occurred, told investigators that he saw four men in the area between 10 and 10:30 P.M. the night Mrs. Simpson and her friend Ronald L. Goldman were slain.

Mr. Tilden said that he did not come forward earlier because he had not been following the case closely and thought that the killings had occurred hours later. He said he learned that they had taken place late on June 12 while watching opening statements in the case last week.

A lawyer for Mr. Simpson, Johnnie L. Cochran Jr., asserted in court on Friday that prosecutors had failed to turn over their interview with Mr. Tilden. But Christopher Darden, a prosecutor, said a representative of the district attorney's office had interviewed Mr. Tilden less than 24 hours earlier.

He added that Mr. Tilden said the four young men appeared to be college students.

Another witness who claimed to see four men in the area about the same time was Mary Anne Gorchas, whose credibility came under attack last week.

Deputy District Attorney Marcia Clark had called Ms. Gorchas "a known liar and a Simpson case groupie."

Mr. Darden said Mr. Tilden contacted prosecutors after he heard the trial's opening statements, which discussed Ms. Gorchas's account of four men. "This isn't someone that we've known about for several weeks or several months," Mr. Darden said.

Mr. Tilden, when asked in an interview if he thought that the men he saw were involved in the killings, replied, "In my ... my gut, no."

But, he added, "I heard all this stuff about some woman who saw four guys and I knew,

and remember that I saw four guys walking up the alley."

He described the men as white and "clean cut," and said there was nothing strange or menacing about them.

Ms. Gorchas had described the men she saw as two whites and two Hispanics.

In another development in the trial Friday, former neighbors of Mrs. Simpson when she lived in another section of the area testified that they saw Mr. Simpson walking outside her home late one evening, apparently trying to look in.

One neighbor, Carl Colby, said he even called the police thinking the man might be a burglar, but then was "embarrassed" when he realized it was Mr. Simpson. The incident took place in April 1992, when the Simpsons were separated.

In his testimony, Mr. Colby said that Mr. Simpson "seemed to be hesitant and to be attempting to perhaps observe something that may have been occurring inside the house."

Mr. Colby's wife, Catherine Boe, said she saw the Simpsons argue bitterly and heard Mr. Simpson accuse his estranged wife of being romantically involved with other men.

Ms. Boe said she saw the couple arguing a couple of times, including once in a park when "I gather that he was angry at her thinking that she had been with another man," she testified. "And she was angry at him for being angry at her."

In other testimony, an officer who responded to a frantic 911 call from Mrs. Simpson in 1993 testified that he found her "visibly shaken" and that Mr. Simpson agitated and upset. Sergeant Robert Lerner also said his supervisor taped conversations with both Simpsons. He said he was unaware of the 30-minute tape until Thursday.

Lawyers said Mr. Simpson also did not know the tape existed, and only recently listened to it.

The testimony by the officer was part of an effort by prosecutors to demolish Mr. Simpson's good-guy image and establish a motive: that after years of abusing and degrading his wife, Mr. Simpson killed her in a jealous rage.

## CLINTON: Book Exhumes Tales of President's Past

Continued from Page 1

had been made and became a major issue in his surfaced in the 1992 campaign.

Mr. Maraniss's book is a broad character study of Mr. Clinton before he won the White House, focusing on the forces that shaped the 42d president from his boyhood in Arkansas to his decision to enter the 1992 race.

It is based on interviews with more than 400 people, including Mr. Clinton's friends, colleagues and relatives. Mr. Clinton declined to be interviewed for the book, but some material was drawn from five interviews that Mr. Maraniss had with Mr. Clinton during the 1992 presidential campaign.

Asked about Ms. Wright's description of her meeting with Mr. Clinton and Mr. Clinton's effort involving the ROTC letter, the White House press secretary, Michael McCurry, said: "These issues surfaced during the campaign and they were effectively dispensed with. I am not sure there is any real news here to comment on."

"First in His Class" presents a complex young man whose life before the presidency demonstrated many of the traits — intelligence, energy, passion for government and politics and new ideas — that Mr. Clinton exhibits today.

But it also presents another side of Mr. Clinton — someone who shared the truth, showed little personal discipline or focus, exhibited a volatile temper

and was perpetually reluctant to make decisions — that has been revealed during his presidency.

"With Bill Clinton, it is often tempting but usually misleading to try to separate the good from the bad, to say that the part of him that is indecisive, too eager to please and prone to deception is more revealing of the inner man than the part of him that is indefatigable, intelligent, empathetic and self-deprecating," Mr. Maraniss writes. "They coexist."

Mr. Maraniss writes in his preface that "First in His Class" was not intended to be "a book preoccupied with Clinton's sex life." But one of the threads that runs through the book is Mr. Clinton's political ambition, and a subtext is his effort to eliminate evidence of flaws that might come back to haunt him in a campaign.

Mr. Maraniss writes that Ms. Wright said she confronted Mr. Clinton about his affairs when he was considering a run for the presidency in 1988 because "she was convinced that some state troopers were soliciting women for him and he for them, she said."

Gary Hart had recently ended his candidacy for president after admitting an extramarital affair, and it was time, Ms. Wright said, for Mr. Clinton "to face the issue squarely."

She said she told Mr. Clinton, "I want you to tell me the truth about every one" of the

women, and described going over the list with him.

Ms. Wright, in her statement, said: "I think that David Maraniss may have misunderstood what I told him about the troopers. What I believe is that some of them solicited women for themselves, exploiting the fact that they worked for the governor."

"My recommendation that the governor not run for president in 1988 was based on my fear that, in the climate of Gary Hart, that liars and gold diggers would come out of the woodwork," she continued. "What I learned from my conversation with the governor was that the rumors were nothing in reality. My concern was for the impact that the rumors would have on Chelsea and Hillary."

In response to Ms. Wright's comments, Mr. Maraniss said Thursday night: "I interviewed Betty Wright several times for my book and based my account of her dealings with Bill Clinton directly on what she told me during those interviews. Before the book's release, I met with her and read to her the sections related to her."

Her response at the time was that I had fairly and accurately reported what she had said," Mr. Maraniss said. "During the two years I spent working on this biography, I came to understand the complicated love-hate relationship between Betty Wright and Bill Clinton, which seems to be in evidence again."

## BOOKS

**MADAME BLAVATSKY'S BABOON: A History of the Mystics, Mediums and Misfits Who Brought Spiritualism to America**

By Peter Washington. 470 pages. \$27.50. Schocken.

Reviewed by Michael Dirda

At the very least the Theosophists and their spiritualist rivals had a way with book titles. "Isis Unveiled," "The Astral Plane," "The Coming of the World Teacher," "Invisible Helpers," "The Fourth Way" and, best of all, "The Secret Doctrine." Such writings seem to promise the weary soul a glimpse into the very meaning of the universe, as well as hinting that one may, through effort, gain the power of the magus and the tranquil wisdom of the sage.

Compared with the evil or dopey pseudo-religions of today, the Theosophists seem a kinder, gentler cult. They exhibit an old-fashioned looniness, like George

Bernard Shaw's faith in the healthful effects of Jaeger all-wool suits, and their practices often sound more kitsch than cabalistic. We can even read about their activities with an ironic smile and dismiss Madame Blavatsky and Gurdjieff as mere light-opera charlatans. But the unceasing popularity of Theosophy's offshoots should alert us that, among the truth, showed little personal discipline or focus, exhibited a volatile temper

Born in 1831 in Russia, Helena Blavatsky married at 17 a vice governor of a province in the Caucasus, ran away a few weeks later and never looked back. No one is quite sure how much of her biography is propagandistic myth. She "claimed to have ridden bareback in a circus, toured Serbia as a concert pianist, opened an ink factory in Odessa, traded as an importer of ostrich feathers in Paris, and worked as interior decorator to the Empress Eugénie."

This fast, flowery, vulgar woman possessed undoubted charisma. When she claimed to be in touch with ancient adepts, with

names like Morya and Koot Hoomi, nobody laughed. In fact, she won over Colonel Henry Olcott, one-time member of the committee charged with investigating Lincoln's assassination. In 1875, in New York, this odd couple founded the Theosophical Society, devoted to collecting and diffusing "knowledge of the laws which govern the universe," later moved its headquarters to India and evangelized far and wide.

It's pretty clear that Peter Washington finds the outrageous G. I. Gurdjieff almost as irresistible as did his disciples, among them African-American novelist Jean Toomer and short-story writer Katherine Mansfield. (The tubercular Mansfield passed her last days at Gurdjieff's "monastery.") Gurdjieff came from Central Asia, looked like Fu Manchu and possessed remarkable personal magnetism.

As Washington notes, while the Theosophists might be associated with the League of Nations and social democracy, Gurdjieff represents the more contemporary fascination with

harshism, primitivism and strife. Breathing exercises, dance and other forms of movement, aiming for "the integration of all the vital forces," made up much of the Master's teaching.

Later chapters of "Madame Blavatsky's Baboon" depict the spiritual adventures of California writers Aldous Huxley, Gerald Heard and Christopher Isherwood, touch on a number of recent gurus and movements (Jidris Shah, the Aetherius Church) and describe the often sad later years of various would-be adepts and one-time disciples. All in all, Peter Washington has written a wonderfully engaging and useful book.

Michael Dirda is on the staff of The Washington Post.

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## AMERICAN TOPICS

### Pollution-Cancer Link Is Now Called Slight

A new study by the National Cancer Institute suggests that, contrary to the contentions of environmental activists, environmental hazards have little to do with cancer.

For more than two decades, some scientists have been predicting "an impending disaster of ever-increasing cancer rates," the institute's journal said in an editorial, but new findings "suggest it will not occur."

But just because pollutants may not be causing cancer does not mean they are harmless, some scientists say. "There are other health effects of chemicals in the environment," said Theo Colburn, a senior scientist at the World Wildlife Fund in Washington.



**TIMELY CHERUBIC THOUGHTS** — Nearly 10,000 of these "Love" stamps were sold within hours of going on sale this week at the post office in Valerines, Virginia.

### Short Takes

Coffee, tea or takeoff? Bernadette Flanagan has become one of the few flight attendants ever to move up to the cockpit. Miss Flanagan, 31, was promoted to flight engineer and pilot by Florida-based Carnival Air Lines after completing flight training school. She said she worked a full shift as a flight attendant, then changed uniforms and got back on the same plane. "One of the passengers said to me, 'What are you doing up front? You just served me coffee!'"

Golf is good for you because it is low in intensity and long in duration, says Darlene A. Sedlock, associate professor of physiology at Purdue University in West Lafayette, Indiana. She says a 150-pound (68-kilogram) male, walking around and pulling clubs on a set of wheels for 18 holes over four hours, will burn about 1,060 calories, or 600 calories more than if he did nothing for four hours. "On the other hand," she adds, "if you're riding in a cart with a cooler in the back, it's probably not going to help your health at all."

**Catholicism Lite?** That's what the new sign at St. James the Less Catholic Church in Highland, Indiana, had some people thinking. Confusion arose from the wording arrangement, which reads: "St. James" "the Less" "Catholic" "Church"

The sign does not at all mean a watered-down brand of religion, said the Reverend Francis Lazar. The St. James in question was known as "the Less" because he was shorter and younger than his contemporary, who became known as St. James the Greater. The parish received hundreds of phone calls after the new sign went up in November. Father Lazar said the sign should have placed the saint's name all on one line to avoid confusion, but he has no plans to replace it.

International Herald Tribune.

## A Time Capsule Is Opened

PARIS — Imagined a bevy of reporters let loose in the not too distant past, at liberty to photograph famous figures of the arts and public life, from Victor Hugo to Johann Strauss. Add, for good measure, interiors with women wearing crinolines and views of unspoiled European countryside in the early phase of the industrial age, plus a couple of shots of the Crimean War in 1855.

All that, and more, could be seen in the time capsule that popped out of the blue last

SOURIN MELIKIAN

Saturday at the Hôtel Drouot. That day, in the most important sale of early photography ever at Drouot, Antoine Godeau auctioned off tens of thousands of photographs of the 1850s and 1860s. There were so many of them that Marc Pagneux, the Drouot expert assisting the auctioneer, gave up any thought of counting them.

As a prelude to the sale, there was a job lot of "approximately 15,000 pieces." The entry described these as "unclassified photographs" from the archive of André Adolphe Eugène Disderi. With only one day allowed for the viewing of a sale that ran to 193 lots, that gave it an element of whimsical surprise that is quintessentially French.

The story behind the sale is equally astonishing. The man who built up this collection, Maurice Levert (1858-1944), was the son of a French *prefet*. He was eager to join the army, but he lost an eye as a young man and was barred from achieving his dream. Failing that, he turned to collecting anything to do with the military: arms, armor, uniforms, flags — and photographs. His vast holdings of military memorabilia eventually entered the Musée de l'Armée as a bequest in 1944. But no one wanted the photographs, which remained with the family for another 50 years.

At the heart of the photograph collection was the fantastic archive of Disderi. For a decade, Disderi was the fashionable photographer to the French establishment. From June 1854, when he arrived in Paris, until about 1867, anyone who was anything in French society sat for him. Among other reasons accounting for his success, Disderi patented a process that allowed him to produce multiple portraits from a single glass plate. They were the size of a visiting card, and eight of them cost less than a single large-size print. The Parisians, who took to giving portraits of



A photo of Carolina Rosati fetched 44,800 francs.

themselves to impress friends and acquaintances, loved it.

Well organized, Disderi kept many albums with thousands of names inscribed under specimen photographs. Lot 1 alone in the Drouot sale included "tens of thousands of names," in the expert's words. In later years, Disderi proved unable to adjust to chaotic circumstances and went bust. The archive survived, passing into the hands of a General Rebora who, in turn, left it to Maurice Levert, whom he made the sole trustee of his estate.

Levert did not just keep the albums with the precious names. He added to them by sorting out and documenting thousands of unclassified Disderi prints at a time when many of the sitters were still remembered by relatives and friends. What turned up last Saturday was, among others, a kind of gigantic illustrated Who's Who of France, foreign visitors included, in the 1850s and early 1860s.

THERE was something surreal about this gallery of famous names. In one of the Disderi albums, one stumbled upon a sheet of multiple portraits of the academic woman painter Rosa Bonheur, whose star was just rising when Disderi photographed her in 1863. There she sits, massive and masculine, her broad square-jawed face wasting no time on unnecessary smiling.

Elsewhere, the cartoonist Cham, lanky and aristocratically nonchalant (in real life, he was *Vicomte Ambroise de Noé*)

stands with his head thrown back, giving the photographer a quizzical but not unkind look.

Franz Liszt appears seated, sideways, as the perfect Romantic with very artistic hair swirling around his head. "Jean" (Johann) Strauss, merely identified as a "Viennese conductor," shown with a well-groomed mustache and beard, seems to fancy himself no end. Hotly disputed, the album climbed to 25,455 francs (\$4,840), with commission.

In another volume put together by Levert, the visiting-card-size prints by hosts of photographers look modest enough. But their evocative power is irresistible. Victor Hugo, seen by E. Bacot, is seated sideways on a simple chair without props, absorbed in his thoughts. Later, Pierre Petiet photographed the French writer full front looking earnest, almost anxious, with sympathetic eyes and a beard that make him look a bit like Abbé Pierre. The last shot shows him in old age, in the midst of poorly dressed working-class schoolchildren, standing on the steps of a staircase. The tired face is gaunt, almost distraught, his white hair, cropped short, standing on end. But there is a mix of protective concern, generosity and understanding radiates.

It would be hard to find a greater contrast than Théophile Gautier, the novelist, poet and art critic who thought so poorly of the Impressionists. Self-importance oozes out of every pore of his saturnine face, bearded and flamboyant. While Hugo denounced the dictatorship of Napoleon III, Gautier

had his ins and outs at court. An autograph of one of his poems is inserted in the album. It was written, a caption says, "for Princess Mathilde [the first cousin of Napoleon III] after an evening at Saint-Gratien on 29 July 1866." One of America's leading dealers in early European photography, Harry Lunn of New York, made a valiant attempt to get the album, bidding up to 23,242 francs. But the Paris National Library stepped in to substitute itself to the last bidder.

So thoroughly convinced were the French museums of the importance of the material that in an unprecedented occurrence at auction, they acquired 91 out of 193 lots, roughly 40 percent in value of the 3.9 million franc sale. They got most of the albums, including those of Disderi. Lunn, bidding on behalf of American institutions, managed to get two of his fashion albums, the second one by resorting to a ruse. As bidding climbed from 10,000 to 20,000 francs, Lunn shouted "60,000" (66,404, with premium), which was a lot more than what the museums had been paying so far. Much later, his London-based American colleague, Robert Herszkowitz, helped by the auction fatigue from which the museums were suffering by then, managed to get a Disderi album dealing with the theatrical scene — 126 plates for only 18,815 francs.

FORTUNATELY for all, there were other photographs in the sale that had no documentary interest, among them landscapes by Olympe Aguado. A cart drawn by four oxen standing on an intensely lighted grassy patch against a backdrop of dark growth was a discovery. This masterpiece of early photography "has a good chance of being unique," Herszkowitz says of the salt print, which was bought for 34,309 francs by Michèle Chomette of Paris.

Another view by Aguado, with a vast expanse of water and spindly poplar trees, dates from about 1856. It heralds later Impressionist compositions. A French collector ran it up to 57,550 francs. Prices such as these are considered enormous by professionals. Even Roger Featon's two views of Balacava in 1855, admirably composed, were thought to be expensive when they sold together for 11,741 francs.

A decade from now, things will look different. For now, the greatest is available and players are few. As far as collecting early photography is concerned, we are still enjoying the last glow of the Golden Age.

## The Face of Hardship and Poverty

By Charles Hagen  
New York Times Staff

NEW YORK — It is hard to imagine a more timely exhibition than "A Century Apart: Images of Struggle and Spirit," the provocative show now at the Museum of the City of New York. With poverty programs once again at the center of political debate, the museum's idea of pairing the work of Jacob Riis, the turn-of-the-century reformer, with that of five contemporary documentary photographers seems especially astute. Along with Riis, the photographers include Martine Barrat, Fred R. Conrad, Mary Ellen Mark, Margaret Morton and Jeffrey Henson Scales.

The show, which runs through Sept. 3, also gives the museum a chance to show off some of the incomparable Riis prints, negatives and other material in its collection. Most of the more than 60 works by Riis in the show are new contact prints of the original 4-by-5-inch glass negatives, made on a special kind of paper that was standard when the images were taken.

In the 1870s, Riis, a Danish immigrant who was a police reporter, became involved in efforts to improve the lives of the people who lived in the teeming slums of New York City. When a workable method of flash photography was invented in 1887, Riis took up the camera to dramatize the shocking conditions he found on the Lower East Side and elsewhere. His lectures, illustrated with glass lantern slides, drew large crowds, and he went on to publish a series of influential books, illustrated with both linecuts and halftone photographs.

Many of Riis's most famous and poignant images are here. "Bandit's Roost," a shot from around 1890 that shows the residents of a crowded alley, is presented as a lantern slide, in



Detail of Jacob Riis photo taken about 1890.

an unusual hand-colored version. And in a particularly memorable picture, a fresh-faced 12-year-old boy pulling threads from garments in a sweatshop is shown surrounded by grinning older men.

Other pictures describe a hidden continent of poverty, from ragpickers at riverside dumps to a family of cigar-makers who earned \$11.25 for rolling 3,000 cigars a week.

Adding to the sense of immediacy are the blunt style and crude technique of these sensa-

tional photographs. (Riis enlisted other photographers to take some pictures, and it's not always clear which images are his.) Riis often surprised his subjects with his open pan of magnesium flash powder; in one picture, the groggy residents of a 5-cent-a-night flophouse, roused from sleep, stare blankly at the camera.

For all the power of these images, though, what gives this show its punch is the pairing of Riis's pictures with those of photographers who

are recording similar conditions today. By themselves, Riis's photographs could be dismissed as old news and the work of the contemporary photographers could be brushed aside as biased. Seen together, the two sets of photographs describe a persistent problem that cuts across decades and ethnic groups.

The scope of the problem is suggested by Scales's eloquent photographs depicting the derelict buildings and empty lots of Harlem as if they were ruins in a city at war.

A major difference between Riis and his successors is that the contemporary photographers are more likely to approach their subjects with respect, and to acknowledge that the lives of the poor have their own sources of pride and pleasure. Barrat, for example, shows a girl standing in front of a city-owned building in Harlem, where she lives without heat or hot water. Far from appearing down and out, the girl bubbles with joy.

In a similar way, Morton's photographs of a Lower East Side shantytown emphasize the residents' resourcefulness and middle-class values; one man even built a fence with a gate around his shack.

Traditionally, reformist photographers like Riis tried to arouse middle-class viewers to pity or outrage, to spur them to demand an end to whatever social evil was depicted. But that sense of outrage is missing from much of the contemporary work.

Of course, today's photographers face a different political climate. Many in American society, weary of viewing images of poverty, are skeptical about attempts to do away with it. Given these circumstances, it seems that a lot of contemporary photographers are wary of taking on the role of social crusader, with the mission of convincing the middle class that poverty's bad effects can be alleviated. Such hesitations seem over to have entered Riis's mind.

## A Muse Pays Homage to Maillol

By Ginger Danto

PARIS — When he thought disconsolately that age had extinguished his strength to sculpt, Aristide Maillol (1861-1944) was urged by a friend to meet someone who apparently incarnated his oeuvre. It was 1934 and the then-esteemed French sculptor had already forged a new, narrative style that verged on abstraction.

He had scandalized Paris's 1905 Salon d'Automne with his first major nude, "Méditerranée," whose ample forms evoked rather than imitated the

body; he had prevailed through critical success, even from classicists such as Rodin. But at 72, he felt he had run out. In deference to his friend, however, he agreed to contact a certain schoolgirl, a "Parisienne."

"I am told that you resemble a Maillol and a Renoir," he wrote by way of invitation. "I would be satisfied with a Renoir."

At 15, Dina Vierny possessed the discipline of her immigrant parents who had left Odessa when she was 6, determined to make a life in France. But she was not without a sense of adventure, and set off for Maillol's Mairie-le-Roi home one Sunday, without her parents' knowledge.

"Maillol used to receive Sunday mornings; I was told to look for whoever seemed the oldest," Vierny recalled recently. "I found that person and went up to him. It was the painter van Dongen."

"But Maillol had seen me. He called me over, showed me his house, his work. Later he asked me when I was free. Like all young people I was very pretentious. I said 'never.'"

And so began, on an artistic level, the courtship of Maillol and Vierny. He instantly found in her the muse he that had eluded him; she found a unique mentor, as well as entrée to the lively milieu of artists.

When their relationship was brutally ended by Maillol's death in a car accident, Vierny vowed to render homage to a collaboration that had availed modern 20th-century sculpture of some of its seminal masterpieces. Colluding circumstances, namely the inheritance of Maillol's estate, reinforced her commitment.

"I thought someday I would make a little museum. No, not a museum, really. Museums are cold. A home, rather, for Maillol and his friends," said Vierny, sitting in her cluttered parlor at 59 Rue de Grenelle. The building began as a convent, later housing a school, a cabaret, a *poissonnerie* and a hodge-podge of tiny apartments whose onetime tenants included Alfred de Musset. Now the motley collection of commerce and cramped dwellings have made way for the latest incarnation: the Musée Maillol, which has been under construction for 15 years.

"More like 30," soaped Vierny, who after donating 18 bronzes to the French state to adorn the Tuileries in 1964, was further convinced that Maillol merited a room of his own. Her steadfast goal remained to suitably present her collection — the largest ensemble of Maillol's, including 400 sculptures, paintings, drawings, engravings and textiles.

"I ever thought I would do such a big thing as this. And it's only the beginning," said Vierny, waving wearily in the direction of a wing planned for her vast doll collection. "The dolls have been with me all along. They know what it is to be patient."

The Musée Maillol opens to the public on March 9.

Ginger Danto is a Paris-based journalist who specializes in the arts.



Dina Vierny at the Maillol Museum.

### ART EXHIBITIONS

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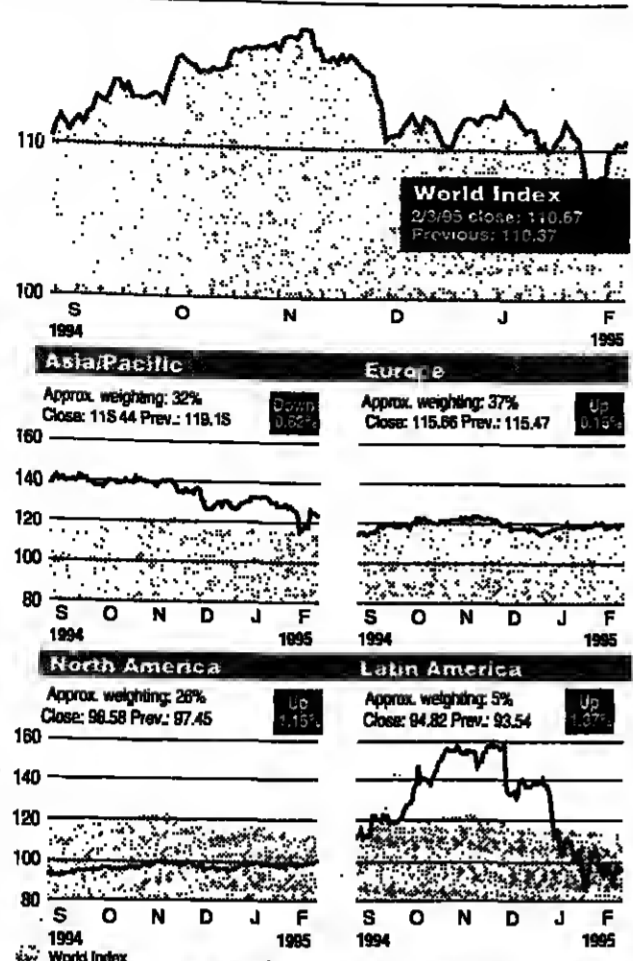
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## East Europe's Failure to 'Emerge'

### Speculative Foreign Money Has Moved Elsewhere

By Erik Ipsen  
International Herald Tribune

LONDON — Will the long shadow of the Mexican crisis cast the emerging markets and even the economies of Eastern Europe and the former Soviet Union into the deep freeze?

Battle-hardened foreign investors in those markets scoff at the notion. Unfortunately, they also concede that such anticipated market durability only masks deeper failures in the region. Steven Bates, a London-based fund manager specializing in emerging markets, puts it most succinctly.

"I don't think there is much foreign money left in these markets," he said. "Everyone hates them."

Five years after the fall of the Berlin Wall, the region that was once billed as one of the hottest investment prospects on the globe has so far become something far closer to the dud developing market of the decade.

Mr. Bates of Fleming Investment Management and others point to market skids that began last spring and that have left exchanges in the region nursing a loss of about 50 percent in asset prices. What little hot foreign money entered those markets has departed, they say.

Left behind is a cadre of steel-nerved foreign investors able to stare unblinkingly at such seeming setbacks as war in Chechnya and constitutional crises in Poland. Economists, meanwhile, note that even in the best of times those volatile portfolio flows fell far short of original expectations.

That shortfall has been even more pronounced — and damaging — when it comes to foreign direct investment, the long-term fund needed to help modernize the region's phones and roads, to snap up promising companies and to create new ones. It is the sort of capital

**"This is a region that includes 25 countries, and yet the total foreign direct investment last year was roughly equal to Mexico's \$6 billion."**

Ricardo Lago, deputy chief economist, EBRD

economists insist is needed by the tens of billions of dollars if the region is ever to close the development gap with the West.

"This is a region that spans 12 time zones, includes 400 million people in 25 countries, and yet the total foreign direct investment last year was roughly equal to Mexico's \$6 billion," said Ricardo Lago, deputy chief economist at the European Bank for Reconstruction and Development, which was set up four years ago to spur development in the region.

And that \$6 billion pales into insignificance compared with the \$28 billion estimated to have flowed into China in 1993.

"It poses real problems in a region where there was great hope that Western capital would do everything," said Hans Holzhauser, head of East European research for Giro Credit Bank in Vienna.

Analysts fault everything from chronic political uncertainty to a simple lack of capacity to absorb foreign capital.

"You have to remember that four years ago these countries did not have banks, much less debt and equity markets," said Dan Lubash, an emerging market analyst at Merrill Lynch in London.

Even today, such a relatively advanced country as Hungary's has only 14 officially listed companies. The Czech Republic boasts only 29. While shares in far greater numbers of unlisted companies are also traded in both countries, volumes are thin and pricing uncertain.

"Even if you wanted to invest in the region, it can take months to build up positions," said James Lister-Cheese, an analyst with Independent Strategy.

While many analysts see much of the hot money having been washed out of markets from Prague to Moscow, they see longer-term investors as holding firm. What is more, managers like Mr. Bates insist that share prices in the region have reached levels so low that they are wading back into the markets with their checkbooks.

Others take heart at continuing, albeit uneven, progress by the region's governments in efforts to remake their economies.

See EMERGING, Page 8

## Markets Gain On Jobless Rise

### Investors Celebrate Signals That Economy Is Calming

Compiled by Our Staff From Dispatches

WASHINGTON — Stocks and bonds soared Friday as investors celebrated what normally would not be good news: The Labor Department said U.S. unemployment had risen for the first time in a year.

The markets interpreted the report as a sign that rapid growth in the U.S. economy had finally abated, allowing the Federal Reserve to take a break after pushing interest rates higher seven times in the last year.

"The economy is slowing to a no-boom, no-bust pace," said Hugh Johnson, chief investment officer at First Albany Corp. "The chances of the Federal Reserve being seduced into raising interest rates too high are a lot less today than a week ago."

The Labor Department said the U.S. unemployment rate rose to 5.7 percent as companies hired fewer workers than in any month in the last year.

The jobless rate was 5.4 percent in December — the lowest in four years — and had not been as high as January's rate since it stood at 5.7 percent in October.

January's increase of 134,000 jobs was down from 210,000 in December and the smallest gain since 101,000 last January. It reflected slow hiring in service industries, the government said, while factories continued to add workers at a rapid pace.

Traders said the news may have sparked a long-lasting bond rally. The price of the benchmark 30-year Treasury bond rose 1 1/2 to 98 17/32, bringing its yield down to 7.62 percent from 7.74 on Thursday. The benchmark bond yield has not been that low since Sept. 8.

For investors, the key development was the realization that the Fed's campaign over the last year to slow the economy and

contain inflation was working. That meant the Fed's half-point increase in the overnight bank lending rate on Wednesday to 6 percent was likely to be the last for months.

Fed policymakers "can go to Caribbean for a little while and get some sun," said Robert Derick, an economist at Northern Trust Corp. in Chicago. "They have no choice but to sit back and wait."

The stock market soared as much as 70 points after the report. The Dow Jones industrial average closed 57.87 points higher at 3,928.64. Advancing issues outnumbered declining ones on the New York Stock Exchange by more than a 3-to-1 margin.

"Once the train starts to leave the station, everyone jumps on board," said First Albany's Mr. Johnson. "That's how small movements become big jumps."

At the White House, Laura D'Andrea Tyson, President Bill Clinton's chief economic adviser, said it was too early to say whether the economy was slowing. She added that January unemployment figures were often misleading because of "seasonal factors" that were difficult to adjust for. "It's hard to know precisely the size of those factors," she said.

The report contained some signs that inflation could become a threat. Average hourly earnings rose 7 cents last month — the largest gain since an 8-cent rise in October — to \$11.52. Average weekly hours worked increased to 34.9 in December from 34.6 in November. Manufacturing hours were unchanged at 42.2 hours, and factory overtime increased to a record 4.9 hours from 4.8 hours.

Some analysts questioned

See STOCKS, Page 8

## Metall Suit Says Ex-Chief Caused Crisis

Compiled by Our Staff From Dispatches

FRANKFURT — Metallgesellschaft AG said Friday it would sue Heinz Schimmelbusch, the company's former chief executive, for 25 million Deutsche marks (\$16 million), charging him with breach of duty and other infractions.

The lawsuit, filed in Frankfurt District Court, also seeks 2 million DM in damages from the company's former chief financial officer, Meinhard Forster.

The company said that the two men, who were dismissed Dec. 17, 1993, had breached their obligations as company officers, resulting in at least 2.7 billion DM in losses for Metallgesellschaft.

"They have caused what is in its dimensions and financial consequences certainly the most serious corporate crisis in German postwar history," the lawsuit said.

The suit charges Mr. Schimmelbusch and Mr. Forster with allowing an irresponsible expansion of oil-futures trading. It also says they permitted Metallgesellschaft to enter into a commercial arrangement with an American concern, Castle Energy Corp., that hurt the company.

The loss from oil futures was put at 1.6 billion DM in 1993 alone, while the loss from Castle Energy contracts was put at 1.1 billion DM.

The lawsuit also faults Mr. Schimmelbusch for the purchase of a house in Frankfurt and renovation of an apartment in New York at company expense.

In January, Mr. Schimmelbusch filed a multimillion-dollar lawsuit in New York alleging that Deutsche Bank AG, Germany's biggest bank, and Metallgesellschaft had carried out a "systematic campaign of defamation" against him.

Bloomberg, Reuters, AP

## ECONOMIC SCENE

### The Fed Opts for Disclosure

By John M. Berry  
Washington Post Service

WASHINGTON — The Federal Reserve Board, after years of saying that immediate announcements of its monetary-policy changes would disrupt financial markets and undermine its effectiveness, formally decided this week to go public.

In a statement released Thursday, the Fed said its top policy-making group, the Federal Open Market Committee, had decided to make permanent a practice of announcing its decisions that it had been using on a trial basis for a year.

"In some infrequent circumstances," the statement added, "the committee might decide to issue a statement even when no policy action is taken."

When the Fed raised short-term interest rates Feb. 4, 1994, for the first time in five years, it uncharacteristically chose to announce the change. Before then, financial-market participants had to figure out for themselves what the Fed had done, based on how much cash the Fed was supplying to the banking system. Fed officials cautioned at the time that announcements might or might not follow future meetings.

Nevertheless, at each of the eight policy-making sessions since then, the Fed either announced rate changes or, if no change was made, said there would be no announcement. On the one occasion when Fed Chairman Alan Greenspan used his own authority to raise rates between meetings, that was also announced.

Representative Henry B. Gonzalez, Democrat of Texas, the senior Democrat on the

House Banking Committee who has pressed the Fed to be more open in its deliberations, called the decision "a victory." But Mr. Gonzalez said he would reintroduce legislation requiring the policy-making committee to make videotapes of its discussions and to make them public promptly.

Despite some of the earlier Fed fears, there has been no sign of any market disruption as a result of announcing the policy changes. Many financial analysts and traders have welcomed the shift.

While the Fed policy-making committee was still considering whether to make the change permanent, some of its members made it clear they liked the new approach.

"I feel pretty comfortable with the disclosure process," Thomas Hoenig, president of the Kansas City Federal Reserve Bank, said recently.

In an indirect reference to the pressure from Mr. Gonzalez, Mr. Hoenig said the shift "takes care of the debate on the issue that was contentious."

By making the announcements, the Fed also dealt with the problem of leaks to reporters about unannounced decisions. At one point, Mr. Greenspan warned FOMC members there would be an investigation if unauthorized disclosures did not stop.

The FOMC also agreed this week to make public edited transcripts of its meetings — after five years. In 1993, the existence of tapes of meetings from the late 1970s to the present, a secret even from most FOMC members, became known as a result of inquiries by the House Banking Committee. Transcripts of the tapes covering the period from mid-1986 through 1988 have been released.

## Nippon Trust To Write Off Its Bad Debts

Compiled by Our Staff From Dispatches

TOKYO — Nippon Trust & Banking Co., the ailing affiliate of Mitsubishi Trust & Banking Ltd., announced Friday it would write off a large chunk of nonperforming loans in the second half of its current year.

A official of Nippon Trust, Japan's seventh largest bank, said the write-off of more than 200 billion yen (\$2 billion) by March would significantly reduce declared nonperforming loans for the year, but he declined to project the final figure.

The move came one week after Sumitomo Bank Ltd., Japan's fourth largest bank, predicted a loss of 280 billion yen for the year because of a major write-off to cover bad loans.

Japan's 21 top banks are still saddled with 13 trillion yen in bad loans, primarily from real-estate deals, assumed during the nation's speculative "bubble" economy in the late 1980s.

Nippon Trust reported a loss of 459 billion yen for the six months ended Sept. 30.

Separately, the Ministry of Finance said a local credit association would absorb the troubled Yuzi Credit Union this year.

(Knight-Ridder, Bloomberg, AFP)

## AUSTRALIAN LOTTERY

### Using This System You Get 11,088 Chances to Win a MILLION DOLLAR JACKPOT

You're GUARANTEED to Win a Share of Up to 150 Million Dollars Over the Next 12 Weeks.

Over the next 12 weeks, the AUSTRALIAN LOTTERY will be giving away up to 150 million dollars in prize money. We guarantee you'll win a share of this... if you play our system.

What makes our system successful? The secret is simple. You play in a GROUP. You join 138 other players in a GROUP ENTRY PLAN...so you play together and win together.

This way you can afford to play more often than you could playing by yourself. You'll have a better chance of winning the big prizes and you win more often.

For a stake of US\$3.32 a week for 12 weeks you can have 2,250 chances to win a multi-million dollar prize, and for a stake of US\$12.42 a week you get 11,088 chances to win. Every one of these chances can win you one of the BIG JACKPOTS.

These BIG JACKPOT PRIZES in the AUSTRALIAN LOTTERY are never less than 2 million dollars and they go as high as 14 million dollars...in tax-free, lump sum cash.

When your Group gets six numbers correct out of 45, you not only win in MILLIONS from the top prize but you also share in all the smaller cash prizes as well. You can win again and again during your 12 weeks of play with the same or different number combinations.

All you need do is choose how many CHANCES TO WIN you want to have...

Our REGULAR PLAN gives you 210 different number combinations and 2,250 CHANCES TO WIN.

CHANCES TO WIN. The DE-LUXE PLAN gives you 924 different number combinations and 11,088 CHANCES TO WIN.

In other words, you get so many chances, you're guaranteed to win something!

It's easy to join a GROUP PLAN

It's easy to join in, too. Your group's number combinations are selected for you by a specially programmed computer. Every number combination that's entered will be different - and all holders of Shares in the Group will share the winnings if you hit a MULTI-MILLION DOLLAR JACKPOT!

When you enter you'll be sent an ENTRY CONFIRMATION CERTIFICATE showing the numbers your Group has been allocated and the date of your first entry. Every month you'll be sent a list of winning numbers so you can see how you're doing.

The winning numbers are announced every Saturday at 8:30 p.m. on Australian television and published in leading newspapers the following day. You can always call our HOTLINE numbers in Brisbane and London whenever you want to check the winning numbers for yourself.

Indicate which GROUP PLAN you would like to join and how many CHANCES TO WIN you want by ticking the box in the ENTRY FORM below.

The size of any one Group is limited to 140 shares, but you can have more than one Share in your Group if you want to keep more of the prize monies for yourself.

Complete and return the ENTRY FORM below as soon as you can for your best chance to share in one of the AUSTRALIAN LOTTERY MULTI-MILLION DOLLAR JACKPOT PRIZES.

This Year the AUSTRALIAN LOTTERY Will Give Away Over US\$200,000,000 in Cash Prize Money.

AUSTRALIAN LOTTERY OFFER



FREE DOUBLE BONUS When You Enter the AUSTRALIAN LOTTERY DE-LUXE GROUP PLAN

BONUS NO. 1: FREE TICKET in an Australian Government AS20,000 "Scratch 'n' Win" Lottery.

BONUS NO. 2: FREE TICKET in the Australian Surf Lifesavers Draw. TOP PRIZE: AS250,000

When you enter the DE-LUXE GROUP PLAN you can win a FREE Ticket in an Australian State Government "Scratch 'n' Win" Lottery with a chance to win ONE OF THE BIGGEST prizes ever offered up to AS250,000. You also get a FREE Ticket in the Australian Surf Lifesavers Draw. This run with a Luxury Apartment overlooking the beach, an SSK Mercedes R106 or a 28' Caribbean Bertram Cutter and other prizes. The numbers on the Draw Tickets you're allocated will be sent you with your Lottery ENTRY CONFIRMATION CERTIFICATE.

You must send in your Entry Form below within 30 days to qualify for the DOUBLE BONUS.

## CURRENCY & INTEREST RATES

Feb. 3													Feb. 3			
Cross Rates																
	\$	£	D.M.	FF.	Yen	Sc.	Sw.	DK	Nor.	Y.	Sc.	Sw.				
Australia	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Canada	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
France	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Germany	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Italy	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Japan	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Netherlands	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Spain	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Sweden	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Switzerland	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
UK	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
US	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36	1.36	1.36	1.36				
Eurocurrency Deposits																
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years							
Australia	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Canada	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
France	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Germany	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Italy	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Japan	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Netherlands	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Spain	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Sweden	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Switzerland	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
UK	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
US	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Key Money Rates																
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years							
Australia	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Canada	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
France	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Germany	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Italy	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Japan	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Netherlands	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Spain	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Sweden	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
Switzerland	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
UK	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							
US	1.27	0.63	1.08	6.55	107.5	13.76	1.36	1.36	1.36							

MARKET DIARY

Jobs and Bonds Give Dollar a Lift

Compiled by Our Staff From Dispatches  
NEW YORK — The dollar surged Friday against other major currencies as stock and bond market rallies sparked strong demand for the U.S. currency.

Foreign Exchange

The economy had added a smaller-than-expected 134,000 nonfarm jobs in January, easing concerns about inflation.

The dollar is benefiting from an overall positive feeling about U.S. assets, said Tom Hoge, vice president of corporate trading at the Bank of New York. Strong demand for U.S. securities often bolsters the dollar because foreign investors must purchase the securities with U.S. currency.

The dollar closed at 1.5270 Deutsche marks, compared with 1.5180 DM on Thursday, and at 99.850 yen, after 99.425 yen.

It also closed at 1.2935 Swiss francs, up from 1.2848 francs, and at 5.2930 French francs, up from 5.2610 francs.

The pound closed at \$1.5635, down from \$1.5825.

The dollar dipped briefly after the employment report

damped speculation that the Federal Reserve Board would raise interest rates again soon after its 50 basis-point increase Wednesday.

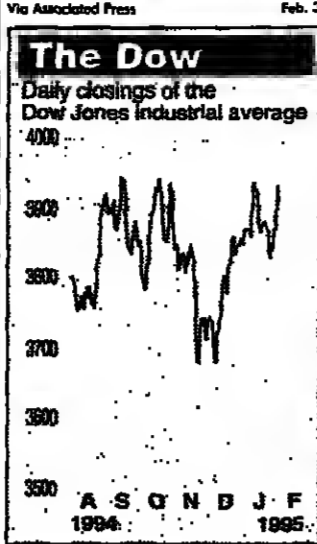
"People feel the Fed's tightening is over for the time being, which has had a positive effect on stocks and bonds," said Jim Raphael, a trader at NatWest Bancorp.

David Brown, chief European economist at Bear Stearns, said, "Bonds are helping the dollar for a change, as opposed to weaker bonds dragging the dollar under."

But some traders looking for signs of inflation pointed to a 7-cent increase in average hourly earnings, to \$11.32, the largest increase since an 8-cent jump in October, as evidence that inflation remains a concern.

"The economic numbers were a mixed bag," said Lisa Finstrom, an analyst at Smith Barney. "The pace of job creation is declining, but everything else looked healthy. They suggest that the U.S. economy is still strong."

Against the Mexican currency, the dollar weakened to 2.5750 pesos from 2.5550 pesos Thursday. (Bloomberg, AP, Reuters)



NYSE Most Active

Symbol	Vol.	High	Low	Close	Chg.
IBM	1,234,567	120.50	119.75	120.00	+0.25
Microsoft	987,654	55.25	54.75	55.00	+0.25
Apple	876,543	45.50	45.00	45.25	+0.25
Oracle	765,432	35.75	35.25	35.50	+0.25
Amazon	654,321	25.00	24.50	24.75	+0.25

NASDAQ Most Active

Symbol	Vol.	High	Low	Close	Chg.
Intel	1,567,890	35.25	34.75	35.00	+0.25
Motorola	1,234,567	25.50	25.00	25.25	+0.25
Qualcomm	987,654	15.75	15.25	15.50	+0.25
Lucent	876,543	10.00	9.75	9.875	+0.125
3Com	765,432	8.50	8.25	8.375	+0.125

AMEX Most Active

Symbol	Vol.	High	Low	Close	Chg.
Goldman Sachs	123,456	120.50	119.75	120.00	+0.25
JP Morgan Chase	98,765	55.25	54.75	55.00	+0.25
Bank of America	87,654	45.50	45.00	45.25	+0.25
Wells Fargo	76,543	35.75	35.25	35.50	+0.25
Citigroup	65,432	25.00	24.50	24.75	+0.25

Market Sales

NYSE	NYSE	NYSE
1,234,567	987,654	876,543
765,432	654,321	543,210

Dow Jones Averages

Index	Open	High	Low	Close	Chg.
Dow Jones	5000.00	5050.00	5020.00	5030.00	+30.00
S&P 500	1000.00	1010.00	1005.00	1008.00	+8.00
NASDAQ	2000.00	2050.00	2030.00	2040.00	+10.00

Standard & Poor's Indices

Index	High	Low	Close	Chg.
Industrials	5500.00	5450.00	5480.00	+30.00
Utilities	1200.00	1180.00	1190.00	+10.00
Technology	3000.00	2950.00	2980.00	+30.00

NYSE Indexes

Index	High	Low	Close	Chg.
NYSE Composite	5000.00	4950.00	4980.00	+30.00
NYSE-100	1000.00	990.00	995.00	+10.00
NYSE-200	2000.00	1950.00	1980.00	+30.00

NASDAQ Indexes

Index	High	Low	Close	Chg.
NASDAQ Composite	2000.00	1950.00	1980.00	+30.00
NASDAQ-100	1000.00	990.00	995.00	+10.00
NASDAQ-200	2000.00	1950.00	1980.00	+30.00

AMEX Stock Index

Index	High	Low	Close	Chg.
AMEX Composite	1000.00	990.00	995.00	+10.00
AMEX-100	500.00	490.00	495.00	+10.00
AMEX-200	1000.00	990.00	995.00	+10.00

Dow Jones Bond Averages

Bond	Close	Chg.
10 Year	100.00	+0.05
30 Year	105.00	+0.05
10 Industrials	102.00	+0.05

NYSE Diary

Event	Time	Price
Advanced Declined	10:00	100.00
Unchanged	10:30	100.00
Total Issues	11:00	100.00

AMEX Diary

Event	Time	Price
Advanced Declined	10:00	100.00
Unchanged	10:30	100.00
Total Issues	11:00	100.00

Spot Commodities

Commodity	Today	Prev.
Crude Oil	25.00	24.50
Gold	350.00	345.00
Silver	10.00	9.50
Platinum	1000.00	950.00
Palladium	2000.00	1900.00

EUROPEAN FUTURES

Index	Open	High	Low	Close	Chg.
DAX	1000.00	1010.00	1005.00	1008.00	+8.00
FTSE 100	2000.00	2050.00	2030.00	2040.00	+10.00
Nikkei 225	15000.00	15100.00	15050.00	15080.00	+80.00

Metals

Commodity	Open	High	Low	Close	Chg.
Gold	350.00	355.00	345.00	352.00	+2.00
Silver	10.00	10.50	9.50	10.20	+0.20
Platinum	1000.00	1050.00	950.00	1020.00	+70.00

Financial

Index	Open	High	Low	Close	Chg.
3-MONTH STERLING (LIPPE)	100.00	101.00	99.00	100.50	+0.50
3-MONTH EURO (LIPPE)	100.00	101.00	99.00	100.50	+0.50
3-MONTH JAPANESE (LIPPE)	100.00	101.00	99.00	100.50	+0.50

Stock Indexes

Index	Open	High	Low	Close	Chg.
FTSE 100	2000.00	2050.00	2030.00	2040.00	+10.00
DAX	1000.00	1010.00	1005.00	1008.00	+8.00
Nikkei 225	15000.00	15100.00	15050.00	15080.00	+80.00

Dividends

Company	Per Ann	Div	Pay
Amgen	1.00	1.00	1.00
Boeing	0.50	0.50	0.50
Microsoft	0.25	0.25	0.25

REVERSE STOCK SPLIT

Company	Split	Ratio
Amgen	1:10	1:10
Boeing	1:5	1:5
Microsoft	1:2	1:2

YEAR-END

Company	Year-End	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

EXTRA

Company	Extra	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

REPUCE

Company	Repuce	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

OMITTED

Company	Omitted	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

REGULAR

Company	Regular	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ALLIED HEALTHCARE

Company	Allied Healthcare	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
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ARMED AND DANGEROUS

Company	Armed and Dangerous	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

EUROPEAN FUTURES

Index	Open	High	Low	Close	Chg.
DAX	1000.00	1010.00	1005.00	1008.00	+8.00
FTSE 100	2000.00	2050.00	2030.00	2040.00	+10.00
Nikkei 225	15000.00	15100.00	15050.00	15080.00	+80.00

Metals

Commodity	Open	High	Low	Close	Chg.
Gold	350.00	355.00	345.00	352.00	+2.00
Silver	10.00	10.50	9.50	10.20	+0.20
Platinum	1000.00	1050.00	950.00	1020.00	+70.00

Financial

Index	Open	High	Low	Close	Chg.
3-MONTH STERLING (LIPPE)	100.00	101.00	99.00	100.50	+0.50
3-MONTH EURO (LIPPE)	100.00	101.00	99.00	100.50	+0.50
3-MONTH JAPANESE (LIPPE)	100.00	101.00	99.00	100.50	+0.50

Stock Indexes

Index	Open	High	Low	Close	Chg.
FTSE 100	2000.00	2050.00	2030.00	2040.00	+10.00
DAX	1000.00	1010.00	1005.00	1008.00	+8.00
Nikkei 225	15000.00	15100.00	15050.00	15080.00	+80.00

Dividends

Company	Per Ann	Div	Pay
Amgen	1.00	1.00	1.00
Boeing	0.50	0.50	0.50
Microsoft	0.25	0.25	0.25

REVERSE STOCK SPLIT

Company	Split	Ratio
Amgen	1:10	1:10
Boeing	1:5	1:5
Microsoft	1:2	1:2

YEAR-END

Company	Year-End	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

EXTRA

Company	Extra	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

REPUCE

Company	Repuce	Price
Amgen	1994	100.00
Boeing	1994	50.00
Microsoft	1994	25.00

OMITTED

Company	Omitted	Price
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**Friday's Closing**  
Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere. Via The Associated Press

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 PAGE 7

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**FIRST COLUMN**

# Absolute? It's Always Relative

**T**HE financial world is littered with snappy, superficially attractive marketing concepts that do little to further our understanding of what goes on out there. But what these epithets undoubtedly are good at is persuading us to part with our money.

Let's consider one example from the equity markets: In the mid-1980s, when some brokers were becoming nervous about the rampant bull runs of stock markets, a quick-fix pacifier had to be found. And so the concept, lovingly and carefully marinated in absurdity, of "the weight of money" was born.

The beauty of the idea was that it partially acknowledged the truth, to wit, that the markets were indeed overvalued. But then it went on to claim that shares would continue to rise because of such factors as the savings plans that were feeding money into the market every month. The weight of money argument had it that there was nowhere for inherited wealth, left-over income, or spare capital in general to go but into the markets. Thus the money would settle, ineluctably attracted by the gravitational force of the market.

But when the markets fell like a stone it became clear that money will settle just about anywhere — gold, cash, wine — providing the resting place does not frighten the investor.

The hedge and derivatives fund industry produced its own concept to soothe frayed nerves when these funds were soaring upward in 1993. The gains being seen, investors were told, were "absolute performance." There was little or no correlation with the wild, erratic movement of share prices. Absolute returns were a function of the managers' ability to take value from the market and control risk.

And then the U.S. authorities raised interest rates. Absolute returns proved to be absolutely as subject to the vagaries of interest rates as shares were. Let's hope, after a tough 1994, that these funds will do well in the climate of this week's 0.5 percentage point U.S. interest rate rise. Relatively speaking, of course.

M.B.

## As Bonds Wilted, Some Managers Quietly Raked In Profits

By Rupert Bruce

**C**ONVENTION has it that the hedge and managed futures fund business took a severe beating in the bond market meltdown last year, but the reality is quite different. In fact, while some of the most celebrated managers suffered heavy and high-profile losses, many less well-known managers quietly turned in respectable returns for 1994.

The result is that as we enter 1995, the "absolute return" school of investment management is going from strength to strength. More and more, talented investment professionals are setting up their own operations or joining existing ones. What distinguishes them from traditional managers is that they seek to make money for their investors year after year, regardless of whether the markets they trade go up or down.

The expansion is centered on the more glamorous hedge-fund side of the business. George P. Van, chairman of Van Hedge Fund Advisers, a hedge fund consultancy based in Nashville, Tennessee, estimates there are about 3,000 U.S. hedge funds and that the number is increasing at 20 percent a year.

"The snowball keeps rolling and gathering weight," he said, "and we do not really see any change in that."

But 1994 was in many ways a watershed.

John Demaine, a director of Sabre Fund Management, a London-based futures-fund manager, characterizes it as a year when investors remembered that these funds were not just about high rewards, they could also carry high risks. He says clients are not just looking for high rewards now, they want low volatility as well. This, he believes, is a healthy development.

During 1993, many hedge-fund managers turned in returns in excess of 50 percent, while futures-fund managers generally managed less impressive returns of about 10 percent. Investors and many managers grew rich on the speculative bond market bubble.

By the beginning of 1994, George Soros, Michael Steinhardt and Julian Robertson of Tiger Management — three of the biggest New York hedge-fund managers — were virtually household names not just in the United States, but in parts of Europe as well.

Paul Tudor Jones, a futures-fund manager who had started to use hedge-fund-type strategies as well, was another treated as a demi-god in investment circles. When the bubble burst and the bond markets

### Hedge Fund Winners and Losers

A selection of hedge funds and how they performed.

Fund or fund company	Principal	Investment capital (Dec. 31)	Net return to investors 1993	1994
Soros Fund Management	George Soros	\$ 11.0 billion	+ 67.4%	+ 3.0%
Tiger Management	Julian H. Robertson Jr.	6.0 billion	+ 61.0	- 9.0
Quantum Fund (Soros Fund Man.)	George Soros	5.0 billion	+ 67.0	+ 2.9
Steinhardt Partners	Michael Steinhardt	2.7 billion	+ 38.4	- 33.0
Odyssey Partners	Leon Levy, Jack Nash	2.2 billion	+ 38.8	- 8.5
Omega Advisors	Leon Cooperman	1.9 billion	+ 62.7	- 24.0
Long-Term Capital Management	John W. Meriwether	1.5 billion	n.a.	+ 20.8
Kingdon Capital Management	Mark Kingdon	1.0 billion	+ 40.2	- 2.4
Platinum Asset Management	Kerr Neilson	500 million	n.a.	+ 28.8
Strome Susskind	Mark Strome	460 million	+ 134.0	- 31.0
Kyriakos Associates	James S. Chango	300 million	+ 44.0	+ 44.5
Wyser Pratte & Co	Guy Wyser-Pratte	270 million	16.6	+ 9.0
Regent Pacific FM	Jim Mellon	260 million	n.a.	+ 22.0
Dickstein & Company	Mark Dickstein	250 million	+ 35.0	+ 10.2
NY Partners	John H. Debs	80 million	+ 34.7	+ 5.5
Argonaut Cap. Management	David Gerstenhaber	50 million	+ 16.0	- 24.0
Escholar Partners	Dan Wintzell	13 million	n.a.	+ 23.5

Sources: NY Times, Bloomberg, NY Times.

collapsed in 1994, however, many of their performances went with them.

According to their own estimates, Tiger Management's three hedge funds were all down about 9 percent on the year, while Steinhardt Partners' two funds each retreated about 30 percent. Soros Fund Management's unaudited figures show that the net asset value of the flagship Quantum Fund was actually up 2.9 percent. But as frightened investors sold, so the premium between the price and the net asset value dissolved and, according to Micropal's statistics, the price fell 16 percent.

By contrast, many of the specialized managers did well. To name but two: Long-Term Capital Management, the bond arbitrage hedge fund started by a former Salomon Brothers vice chairman, John Meriwether, made a return of 20 percent for investors. Kerr Neilson, formerly head of Bankers Trust Asset Management's retail-funds group in Australia and a stock picker, made 20 percent for his investors at Platinum Asset Management, based in Sydney, in the 11 months since he started at the beginning of last year.

The wealthy individuals, Swiss banks, U.S. "family offices," and funds of funds who invest with hedge-fund managers rewarded good performance with new funds to manage, while poor performance was punished by redemptions. Platinum now has about \$500 million under management. Steinhardt Partners saw its funds under management fall from \$4.7 billion to \$2.6 billion.

Funds of funds managers say that poor rewards from some of the so-called macro-managers, like Tiger and Steinhardt which employ virtually any strategy to make money in any market, plus a couple of spectacular disasters, have aroused a distaste for highly leveraged securities among

hedge-fund investors, a desire for more regular information, and an appreciation of the old investment maxim: Understand what you are buying.

The unfortunate experience of David Askin, a manager of mortgage-backed securities, is instructive. He lost in short order much of a \$600 million portfolio, and subsequently filed for bankruptcy.

"People are clearly getting back to their knitting," said David Ginsberg, managing director of Global Asset Management's multimanager group, one fund of funds manager.

Mike Foley, director of client services at Strome Susskind, a San Francisco manager which followed up a 134 percent rise in 1993 with a 31 percent drop in 1994, said: "We have narrowed our focus. We are not playing the story of the week, we are only looking at what we are really compelled by. I think that before we bought more and more into some of the ideas that other

people used instead of what we do best. We are back to concentrating on situations where there is big change going on."

In the futures-fund business, 1994 was one in a series of disappointing years. The TASS Managed Futures Index fell 2.5 percent. It rose 11.4 percent in 1993, a year when investment managers of all types did well, 0.6 percent in 1992, and 11 percent in 1991.

Nicola Meaden, managing director at TASS Management, a London-based supplier of investment-fund statistics, said: "Managed futures have not had a good year since 1990. I think you will find that the majority of managers fall into the technical trend following category. They have generally commented that the markets have changed which makes it less easy for them to make money."

"There are so many of them doing similar things that they have almost become victims of their own success. You might have 200 traders chasing a similar move because they are all doing similar analyses and so on."

As a result, the managed futures side of the business is less buoyant and some futures-fund managers have merged. This gives them economies of scale, because it takes similar back-office systems and costs to manage funds under management of \$250 million as it does to manage \$500 million.

### Hedge and Derivative Funds

Page 15

The underlying markets  
The small investor's universe

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Meanwhile, tomorrow's hedge-fund tycoons continue to leave the financial giants that dominate Wall Street and the rest of the world. In the last few weeks, Sushil Wadhvani, an equity strategist, has left Goldman Sachs to join Paul Tudor Jones, and Robert Citron, a well-known fixed income manager, has quit Fidelity Investments for Tiger.

As long as the going rate for hedge-fund management remains 2 percent of funds under management plus 20 percent of all profits made that is likely to remain the case. Fees like that can make you very rich. If you are a manager, that is.

The Money Report is edited by  
Martin Baker

## For Investors, a Source Of Worry — and of Risk

By Iain Jenkins

**F**INANCIAL regulators were not the only people alarmed by the huge losses chalked up by hedge funds and banks in derivatives markets after the bond market crash of last year. Switchboards of many mutual-fund managers were jammed with calls from anxious investors wanting to know if their funds used derivatives.

Understandably, investors were worried that their fixed-income, equity or emerging-market fund had also been caught out by derivatives. Fidelity, the giant Boston fund group, responded to the concern by sending out an educational pamphlet to its investors explaining the kinds of derivatives used by its portfolio managers.

Fidelity's swift action helped reassure most of its clients but the pamphlet surprised some investors. They thought that their bond fund had been caught in U.S. Treasuries, Deutsche mark bonds or British gilts but they discovered that it also used "structured notes," "interest-rate futures," "currency forwards" and other exotic products.

Fidelity is not alone in using derivatives. Most fund managers use derivatives as tools to reduce risk. Some use them aggressively to increase returns if their view of interest rates or equity market movements is right. American mutual funds are more comfortable with these instruments than European portfolio managers.

Laura Lios, an analyst at Morningstar, a Chicago-based fund performance company that is starting to monitor derivative usage, said that on average bond funds have 5 percent of their portfolio invested in derivatives. Some get as high as 15 percent. However, equity funds, have on average under 1 percent in derivatives.

Miss Lios added: "A lot of bond funds were holding derivatives over the past year and this had a negative impact on perfor-

mance. Today, if anything, managers are worried about frightening investors if they use derivatives and many may use them less in the future."

According to Morningstar, the \$106 billion IAI growth and income fund fell 4.8 percent last year with 2 percent of these losses due to derivatives contracts. On the other hand, Gateway Index Plus, another growth and income fund, which uses options to take a defensive "hedged" strategy, rose 5.6 percent last year, thanks largely to options.

Guillaume Pili, on the derivatives team at Bankers Trust, said: "There seems to be a shift in emphasis. This year fund managers want to use derivatives as a risk management tool rather than a way of hunting improved returns. Many suffered losses last year and we have seen a lot of interest in all kinds of hedging strategy."

A common way that funds use derivatives to reduce risk is to cover potential currency devaluations when they invest in non-U.S. dollar assets. Last year the fall in the Turkish and Mexican currencies against the dollar salvaged the performance of dollar investors. But even this safety-first strategy carries risks.

Richard Fentin, portfolio manager of Fidelity Puritan Fund, which is designed to maximize income, tried to cut his risk by using "forward foreign currency" derivatives to protect the value of his Japanese equity investments against the possibility of the yen falling against the dollar. His prudent strategy backfired.

Mr. Fentin, says: "Unfortunately, the value of these currency contracts declined because the dollar weakened against the strengthening yen. It's true that the fund would have been better off if I hadn't hedged the yen, but I wasn't willing to make that move and expose the fund to currency risk. I should note that I only use foreign currency hedges if I think a foreign currency is seriously mispriced."

Many mutual funds were caught out by the dollar weakness last year and it has sparked a debate in the industry about the



use of hedging strategies. "A lot of people take the view that if an investor doesn't like a particular market all they have to do is sell the fund. It is not the job of the fund manager to hedge the market," said Tony Fraher, managing director of Singer & Friedlander, a fund manager in London.

Derivatives are also used by fund managers as a way of getting exposure to a market quickly. During the boom in mutual fund purchases in 1993 portfolio managers often didn't want to rush into picking stocks as money flooded into their funds. Instead, they used "stock index futures" such as options on the S&P 500 or the Mexican index.

Another innovative use of "stock index futures" is an approach used by Martin Sheffield, the portfolio manager of the Singer & Friedlander Taiwan Fund, which invests in Asian markets. His strategy is in response to high dealing costs in Hong Kong, which make it very expensive to sell equities before the market turns down and then repurchase them at a later date.

One of the more aggressive uses of derivatives has been in the area of "structured notes" or "indexed securities." These are customized investment products that can be designed to take advantage of an investment view held by a portfolio manager. It is a leveraged product that can be dangerous if it goes wrong.

Overall, the performance of many of the banks, hedge funds, companies and mutual funds using derivatives does not appear to have enhanced returns by much and in some cases has led to spectacular losses.

## Are the Markets Beyond Regulation?

By Aline Sullivan

**D**ERIVATIVES have become the bane of the 1990s. Private investors, alarmed by the burgeoning use of derivatives, not only by banks in their dealings with other banks but also by mutual funds and regional government authorities, have been clamoring for tighter legislative controls on these volatile instruments.

In the United States in particular, public confidence has been badly shaken by some spectacular cases of derivative deals gone wrong. Investors in Procter & Gamble, the consumer goods giant, learned the hard way last year how the stock market's value of a company may nosedive after an apparently smart derivatives deal by its treasurer's department turns sour.

Other forms of risk are even more alarming. Mutual funds may branch out into highly geared derivatives in an attempt to improve an otherwise lackluster performance. Although regulations limit the proportion of a fund's assets that can be allocated to derivative instruments, not all fund managers remember to inform their investors that such an investment has been made.

But banking and dealing associations question whether new laws are the answer.

In the United States, where the pressure for legislation is greatest, the banks are mounting a vigorous rearguard action, claiming it would be counterproductive.

"This is an evolving industry and we don't want our hands tied," said a member of one such group. "There should certainly be more self regulation but more legislation would mean irrational constraints and ultimately more risk for investors."

Legislators are buying the professional's argument, at least for now. Many believe that the off-the-counter derivatives market is almost impossible to regulate anyway. But time is running out for advocates of the laissez-faire approach.

Earlier this week, Andrew Crockett, the general manager of the Bank for International Settlements, warned the World Economic Forum in Davos, Switzerland, that inappropriate regulation will soon restrict derivative products unless financial institutions assuage investors' and legislators' concerns.

That message resonates strongly with bankers who are eager to fend off further legislation. Guy Evans, chairman of the International Swaps and Derivatives Association and a managing director of Bankers Trust in London, pointed out that derivatives cannot be regulated as a single product because a transaction can

encompass several areas of the financial markets: foreign exchange, equities and commodities, for example.

"Derivatives allow financial products to be combined and dismantled to solve companies' problems," said Miss Evans. "Legislators realize that there is value driven by this transactional activity and that good progress has been made in capturing and confining these risks. They don't want to strangle this process."

Instead, professional investors say, derivatives and their components must be better regulated by the financial institutions handling the products and by their industry associations.

To assist them in this goal, the New York Federal Reserve Bank in January issued its draft "Wholesale Transaction Code of Conduct." The code, which is purely voluntary, establishes guidelines for over-the-counter financial market transactions. It requires adherents to maintain effective control and compliance procedures, risk and credit management policies and regular valuation reviews.

And the Financial Accounting Standards Board is working on an accounting proposal for derivatives trading. In November, the board tentatively decided to replace the current hedge accounting model.

## A Look at Those Perplexing OTC Derivatives

By Baie Netzer

**A**MONG the derivatives most beloved of bankers, most confusing to investors and most suspicious to government regulators are so-called "OTC" derivatives. These are generally privately negotiated, over-the-counter transactions such as interest-rate swaps, structured notes and forward currency contracts.

Experts' estimates of the size of the market range from \$12 trillion to \$25 trillion. To take one section of the market as an example, the base amount of outstanding swaps worldwide rose from more

than \$2 trillion in 1989 to almost \$9 trillion at the end of 1993, according to a survey conducted by the International Swaps and Derivatives Association last September.

Experts say that the flexibility the OTC market offers is behind such growth. "People don't have vanilla exposures," said Glen Saty, a managing director at Swiss Bank Corp. "The OTC market allows portfolio managers to specify the contract size, expiration date, and maturity they desire. Exchange-traded products are generally not that well-focused."

"If, for example, you sell an interest rate future, that's a one-way bet that rates will fall," said John Board, professor of fi-

nance at the London School of Economics. "You can tailor the fancier OTC products so that you make lots of money if rates fall dramatically and yet you're still hedged in case they start to rise."

For their part, investors who praise the flexibility of OTC contracts may find themselves daunted by their price. Because of the time it takes to structure these complicated transactions, OTC derivatives can generate hefty profits for a brokerage house. Asked why an investment bank would recommend an OTC derivative rather than a cheaper, more liquid exchange-traded product, one cynical industry insider replied simply "YTB — yield to broker."

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## THE MONEY REPORT

## Derivatives Industry Tries to Live Down an 'Undeserved' Reputation

By Baie Netzer

UNTIL recently, defenders of derivatives have championed their cause with a variation on the slogan often used by gun-control opponents: "Derivatives don't kill markets. Stupid portfolio managers who misuse derivatives kill markets."

Today, a growing number of academics say that argument is basically true. Despite headlines blaming derivatives for everything from the 1987 stock market crash to the recent bankruptcy of Orange County, California, a large number of studies have exonerated such products as futures and options from the charge that their existence increases the risk in stock, bond and commodity markets worldwide.

"The great bulk of the empirical evidence gives a verdict of not guilty," said Professor

Charles Goodhart of the London School of Economics. "The conclusion is that the existence of a futures market does not increase the volatility of the underlying spot market."

If investors begin using options or futures to place bets on the direction of a stock's price, won't that affect the volatility of the actual shares trading in cash markets? Of course, to regulators and investors outside the ivory towers of academia and high finance, the question doesn't sound unreasonable.

"The theoretical answer is no, the alarmist answer is yes and the academic answer is that volatility may actually be reduced," said Glen Saty, managing director of global education in Swiss Bank Corp.'s international finance division. "The market maker in a derivative helps to absorb some of the risk and therefore some of the volatility."

"Derivatives actually help the price-discovery mechanism in the market," explained Paul R. Knapp, president of the Catalyst Institute, a nonprofit research body in Chicago. "New developments often work their way into derivative prices faster than into underlying market prices because derivatives are easier, cheaper and faster to trade."

If anything, these advantages have caused some concern that investors will abandon underlying markets for derivatives trading, according to Mr. Knapp. But in a recent study for the Sydney Stock Exchange, the Catalyst Institute found this concern unfounded.

"When you introduce a derivative, it tends to attract interest in the aggregate so that you get more trading in both the derivative and in the underlying stock markets," said Mr. Knapp. "The entire market becomes more attractive because

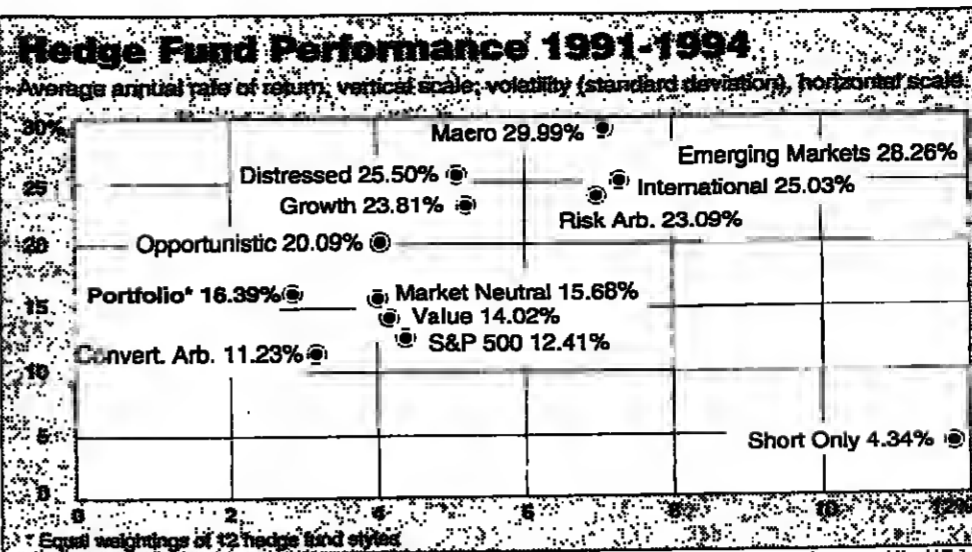
it becomes easier to get into and out of."

Regulators, however, may take more convincing. Many can still vividly recall the 1987 stock market crash, when so-called "portfolio insurance" programs using derivatives were blamed for increasing the magnitude of the plunge. The concern was that derivatives had increased the volatility of the financial system as a whole. The fear was of a "market meltdown."

Having surveyed almost 100 studies of derivatives and underlying market volatility, Professor Robert Mackay, director of the Center for Study of Futures and Options Markets at Virginia Tech, says there is no evidence that derivatives pose a "systemic risk."

"In fact, they have allowed greater diversification," he said. "Today, we may have a currency crisis and it could be that no dealer goes broke because they've all used derivatives to hedge."

Experts warn, however, that the studies supporting derivatives do not preclude a repeat of the 1987 scenario or of large



Equal weightings of 12 hedge fund styles  
Source: E. Lee Hennessee Group

admit is a gap in their knowledge. Because information on the size and nature of the OTC market is not easily available, most of the studies done to date have focused only on exchange-traded derivatives.

"The problem with the OTC market is that nobody knows who on earth is doing what to whom," said Professor John Board of the London School of Economics. "Banks are issuing the majority of these and it's not clear what could happen if one major player has a problem."

"The issues in the OTC market have to do with information and disclosure rather than with their existence," Mr. Goodhart agreed. "If there are sizable positions built up and it's not clear what they are, there could be market disturbances."

Indeed, Mr. Goodhart ventured, the recent Mexican peso crisis may have resulted in part from currency speculation using OTC derivatives. Though there is not yet enough information to support this argument, "there have been studies that suggested the same type of trading contributed to the collapse of the lira in 1992," he said.

because the price of the put increased with the market volatility, the cost of hedging in the midst of the crash ended up being extraordinarily high, according to Mr. Saty at Swiss Bank.

"Today if you buy an over-the-counter put option to insure your portfolio, your losses will

be limited to your premium and deductible but back in 1987, nobody was making a market in these types of long-term puts," he explained. "The result was that too many people relied on dynamic asset allocation."

Yet the growing reliance on over-the-counter derivatives has led researchers to what they

## Investors in Managed Funds Lick Their Wounds

By Christine Stopp

DERIVATIVES funds are not for the inexperienced, and not for the small investor. Which will come as something of a consolation, given their generally poor investment performances over the past year or so. The bottom line is that to lose money in these funds (only 42 out of 132 in the Microcap derivatives sector turned a profit, as did just 2 out of 48 guaranteed funds tracked by Managed Account Reports) you had to be rich and determined.

Entry levels are high: There is plenty of choice for a lump sum of \$100,000 but even this will not gain you entry to some funds, such as the new hedge fund range from E.D. & F. Man in partnership with Glenwood Corp. of Chicago. Glenwood will choose the fund advisers for a \$500,000 minimum.

Funds from Man subsidiaries AHL and Mint have a lower entry level at only \$30,000. Man's managing director, Colin Barrow, says that typical clients are at the high end of the retail sector, with \$30,000 to \$50,000 investments representing 5 or 10 percent of total capital. David Moore, director of funds at Crédit Lyonnais Rouse, says that most of his clients are dollar millionaires.

Man is among the best-known derivatives fund groups, and pioneered the guaranteed fund. Most of its current range of funds are guaranteed — which is what small investors usually prefer, says Colin Barrow. The guaranteed fund has

its critics, who argue that the guarantee is only worth anything in its first couple of years, and that it then becomes a very expensive put option which is way out of the money.

Two-thirds of a guaranteed fund portfolio may go to providing the guarantee, though an investment in zero coupon bonds. The remainder is used to capture equity performance levels through the futures markets.

With or without guarantees, derivatives funds have very high charges compared to conventional funds. Charges fall into a number of different categories. There is an annual management charge paid to cover trading management, plus a performance or incentive fee which is usually around 20 percent of net new highs (gains over and above the fund's last peak price).

Brokerage and various other expenses of dealing will also be charged, and funds are often not forthcoming on the extent of these charges.

In addition, there may be any number of other charges. Redemption charges, which taper down the longer you stay in the fund, are becoming fashionable and some groups charge a front-end fee.

Part of the explanation for the charging structures in these funds lie in the number of parties involved in running them. The fund manager usually contracts out investment advice to a specialist fund group.

Trading funds may offer a bewildering variety of objectives and risk level. "Diversified" funds may include the full range of derivatives, from soft commodities to stock index futures. Many funds concentrate

Derivative Investments				Some sample charges.
Fund Group	Annual mgt. fee %	Perform. fee %	Brokerage	Other
GNI	3	20	\$9.50 to \$15 RT**	Total expenses capped at \$35,000
Credit Lyonnais Rouse	0-2	15-20	\$12 to \$15 on average	Redemption: 4.5% initial, descends to zero. Admin. fees: 2.5% (trading funds) 1.5% (guaranteed funds)
ED&F Man:			\$10 to \$15 RT	
AHL	4	20		
Mint	6	15		
Emileage:				Front end: 5% max. (negotiable)
S&P	2	15	Varies	
Euro. Hedge		20		

\* Calculated on net new highs.

\*\* RT-round turn

IHT

on one area, most popularly financials. There are also a number offering currencies only or an index tracking objective. The point of using derivative funds is to obtain long-term returns comparable to those of the equity market, but not correlated with equity market movements. Depending on his choice of fund on the risk-reward spectrum, the investor is entitled to expect average annual returns of 18 percent to 25 percent over the long term, Mr. Barrow said.



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95/0204AH

## BRIEF CASE

## Now Scudder Fund Wagers on Brazil

It could be argued that the biggest marketing virtue an emerging market fund might have nowadays is that of not being invested in Mexico (notwithstanding some strong rallies from shares on the Mexican Bolsa this week). The new vehicle from the American fund manager Scudder, Stevens & Clark certainly has this attraction: The latest addition to Scudder's Luxembourg-domiciled fund range invests in Brazil.

"Brazil, the largest economy in Latin America, is in the process of moving from very high rates of inflation and very high rates of unemployment to something approaching price stability, to be followed by a period of sustained growth," said Edmund Games, the fund's manager. "The Brazilian market is large, diverse and offers significant opportunity to long-term investors."

The fund is denominated in dollars and is not available to U.S. citizens. For more information, call Scudder in London at (44 171) 265 0077.

## Irish Life Flotation Guarantees 140%

Irish Life has launched a new fund that guarantees a minimum return of 140 percent of "allocated investment" after five and a half years. The company adds that if the return on index of global shares is greater, this is what investors will receive. The returns are achieved — and the company hopes to make its money — through "the expert buying" of options which, "in common with most index-based products, do not assume dividends are paid or re-invested."

The minimum investment in the pound-denominated fund is £2,500 (\$4,000), and there are effectively no charges for investments of more than £5,000 (i.e., 100 percent of investment

capital is "allocated" at this point). For more information call Irish Life at St. Albans, England, at (44 727) 817 000.

## Glenwood Ties In With E.D. &amp; F. Man

Glenwood Investment Group, a U.S. manager with a presence in Switzerland, has linked up with derivatives specialists E.D. & F. Man to launch the Man-Glenwood Multi-Strategy Fund Ltd.

The fund will distribute money to "investment" managers who, considered collectively, implement a broad range of fundamental, technical, systematic and discretionary strategies. Translated into something closer to English, this means that "through carefully balanced diversification, the fund aims to achieve substantial medium-term growth through controlled volatility."

For more information, call E.D. & F. Man in Switzerland at (41) 55 46 36 36, or Glenwood in Chicago at (312) 443-8455.

In next week's Money Report: A look at fraud and money laundering.

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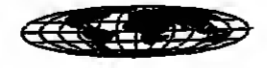
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## DAVE BARRY

## Barbie, the Flame of My Life

Miami — If you want to know what real pressure is, just try using a Barbie doll to set underwear on fire on national television. I did this on "The Late Show with David Letterman." Technically, I was on this show to promote a book, but unless you're an extremely deep thinker such as Madonna, the Letterman people don't like you to just sit there and talk. They want you to have what is known in the TV business as a Strong Visual Element, to keep things moving along. To give you an idea of what I mean, here's how the Letterman show would rate two hypothetical guest spots:

**WEAK GUEST SPOT:** Nobel Prize-winning research scientist explains revolutionary new and easy way to prevent cancer.

**STRONG GUEST SPOT:** Nobel Prize-winning research scientist plays badminton against a cow.

So when a Letterman show producer named Dan Kellison called me up to find out if I had any visual elements, I told him about my Rollerblade Barbie experiment. Rollerblade Barbie is a type of Barbie doll no longer available in stores, for reasons that will soon become apparent — that comes with little booties equipped with cigarette-lighter-type flint wheels; when you roll Rollerblade Barbie along a flat surface, her booties shoot out sparks. A while back, after reading a newspaper account of an accident involving a Rollerblade Barbie and some kids who were playing "beauty shop," I conducted a scientific experiment in my driveway. This experiment proved that if you spray hair spray on a set of underwear, then roll Barbie across it, the underwear will burst into flames.

Dan instantly realized that this experiment would have great visual potential as a way to educate the Letterman audience. But he wanted to make sure it would work, so on the day of my scheduled TV appearance, I went to the theater several hours early for a rehearsal.

Backstage, besides Dan, were maybe a dozen Letterman show personnel, as well as a representative of the New York City Fire Department. The audience was a lot less casual than it had been in my driveway. Everybody was concerned about the fire danger; everybody was also VERY concerned about how Letterman would react. One guy kept saying things like, "Is

this O.K. with Dave? Is Dave going to be comfortable with this? How close is Dave gonna be? Did we run this by Dave again? Maybe we should run this by Dave again."

Many eyes were watching me closely as I spread a pair of men's cotton briefs on a table, then sprayed them with hair spray. Then I picked up a Rollerblade Barbie, put her on the briefs and scooted her forward, sparks flying, and suddenly...

And suddenly nothing happened. So I sprayed more hair spray and tried again. Nothing. I tried a different kind of hair spray. Nothing. I tried a different set of briefs. Nothing. I tried a Rollerblade Ken (which we had on hand as a backup). Nothing.

Finally, just as we were about to give up, we got it to work (the secret, discovered by Dan, was to use an ENORMOUS amount of hair spray). As the blue flames flickered on the underwear, Dan and I gave each other triumphant high-fives. I was elated, until suddenly the thought hit me: What if it didn't work on the show?

So I was a nervous wreck when, two hours later, I found myself in front of TV cameras and a live studio audience, placing underwear on David Letterman's desk, spraying it with hair spray and picking up Rollerblade Barbie. With Letterman watching me closely, I positioned Barbie on the briefs, and rolled her forward, and...

And once again nothing happened.

Fortunately, this turned out to be just a little Higher Power prank, because when I quickly rolled Barbie a second time, the briefs burst into flames. I don't remember much after that. Letterman picked up a fire extinguisher and blasted the briefs, then the camera person, then the audience, which was thrilled. So it turned out to be a highly educational guest spot after all, and I'm sure that you, the viewing public, learned a lot. You don't have to thank me. I'm just trying to avoid getting a real job.

Knight-Ridder Newspapers

## Art Talks Back to Horror on a Sarajevo Stage

By Roger Cohen  
New York Times Service

SARAJEVO, Bosnia-Herzegovina — This city is full of struggle: for survival, of course, but also for the salvation of dignity in the face of horror. Dignity, under siege, becomes synonymous with civilization. Its absence constitutes the abyss.

Nowhere is this struggle more violent than in the person of Nerin Tulic, one of Sarajevo's best-known actors. Tulic has no legs. They were blown off on June 10, 1992. A Serbian shell severed them as he walked near his home in the center of the city. He was hospitalized, refused to eat and says he spent several weeks intending to die.

Now, however, Tulic is back. Perched in a wheelchair. On a stage where the lights obey the haphazard laws of Sarajevo's electricity supply. Spitting venom and decision in a production of Alfred Jarry's "Ubu in Chains" that opens on Saturday and portrays the grotesque, the abject and the heinous in the midst of a city that has no need of a stage to display them.

To see Tulic, a Muslim war victim, spew the relentless illogic of Ubu's world in a city where civilized values and even language itself have been turned on their head through 1,000 days of siege and diplomatic gobbledygook, is to understand the barbarity of the destruction of Sarajevo and the intense relationship of art to war.

Tulic portrays a corporal in what Jarry called "army of the free men in the country of the free men."

"I wanted to play this role, I wanted to act in chains," the 43-year-old actor said. "I am nobody, just one of the 15,000 cripples in Bosnia. If I had my legs, I would be on the front line, killing, not here in the theater. But at least I have the power to act and so give something."



Nerin Tulic in a rehearsal for "Ubu in Chains."

Theater and life merge with great intensity in Sarajevo. Tulic, a denizen of the city's bars, is well known around town. The production itself, in a city so dismembered, amounts to an act of defiance and so of civic — almost Athenian — pride.

"Greek theater was the high point for me because it was part of the life of the city," said Massimo Schuster, the French director of the play. "But this hard core of theater has been lost in our rich societies. It is recovered here because the life of

the spirit is intrinsic to the city's defense. In such a setting you cannot lie."

Like Susan Sontag, who directed "Waiting for Godot" in Sarajevo in 1993, Schuster is dismayed at the paucity of the international artistic response to Sarajevo's plight. "In our complacency, we have failed this city," he said.

Ubu, a monster and everyman, a puppet and a tyrant, a fool and a hero, is an instantly recognizable figure in a city that has come to know the grotesqueness of the world with great intimacy.

Created by Jarry, a French playwright, in 1896, Ubu — hugely fat, obnoxious, destructive, dictatorial — comes home in Sarajevo a century later. The capital of a country, Bosnia, that exists on paper but has been dismembered in reality greets a character, Ubu, whom Jarry described as the former king of Poland, "that is to say, nowhere." A century ago, Poland's existence was as theatrical as Bosnia's.

Tulic's character, whom Schuster calls "a horrible little jerk," is a pathetic figure, whipping his men for failing to obey him, conducting strenuous exercises in discipline, arresting Ubu only to envy his servitude, and singing the praises of liberty only to conclude:

"We are free to do what we like, even obey, go where we like, even to prison! Liberty is slavery!"

Convinced that fascism — in the form of a Serbian drive for an ethnically pure state — is knocking once again on Europe's door and that the Western world has acquiesced in this threat, Tulic has chosen to wear a cap from the U.S. Military Academy at West Point for his role.

A can of American vegetable oil — part of the U.S. food aid to a city whose citizens say the world likes to fatten them for the slaughter — is tied to the wheelchair.

The crippled corporal is pushed around the stage by a much flagellated "free man" wearing a light blue chamber pot on his head as helmet. The widely derided United Nations troops in Sarajevo are generally known as "the blue helmets."

In general, however, the play's relevance to the Bosnian war and the world's response to it is not labored. Schuster, who is based in Marseille and is best known as a puppeteer, feels strongly that the Ubu production should also amount "to a big laugh in the face of this mess."

"I want the public to laugh," he said.

If the play is clearly a catharsis for Tulic, his anger remains. He drinks heavily, torn between the dignity of his calling and the abyss of his suffering. He shuns the word "Serbs," preferring "beasts."

His wife is half-Serb and he says that after his legs had gone he wondered whether he could still take her in his arms. He rails, imploring people to "look at me, not my legs." He notes acridly that he has to be carried into bars these days, whereas he used to be carried out.

One day recently he returned from a rehearsal and a subsequent session in the bars brandishing a bottle of brandy. "I did not ask for this war, but this war is now mine," he said. "Of course, like the United Nations said, I put the shell under my own legs and exploded it. Boom. Of course, that's what I did."

The Bosnian Serbs have repeatedly suggested that the Muslims of Sarajevo were bombing themselves in order to lure NATO into the war. At times — as after a mortar attack on the Sarajevo market last year in which more than 60 people were killed — the United Nations has declined to contradict the Serbs.

"This is an experiment by the world to see how much people can suffer," Tulic continued, surrounded by his three young daughters. "That is what this city is. But my legs are not important anymore. I have three legs — my girls. And I have the stage."

His wife, Maja Hrisavovic, said that for two months after the loss of his legs, Tulic seemed determined to die. Then, in August 1992, she gave birth to their second daughter on the floor below her husband in the city hospital. "That little girl gave him life," she said.

Tulic concurred: "As my dad told me, children need their father, even if he just sits in the corner."

The production of "Ubu in Chains," at the city's youth theater, represents his return from the corner. It is a triumphant comeback, but also a bitter one. Pushed around the stage, a small bearded figure, he yells: "So, there are some people who are disturbed by being free!"

Tulic's body, Tulic's role, Tulic's city and Tulic's country all beg profound questions as to the nature of freedom and the so-called free world. Ubu's own vision of the state of pure liberty is stark: "We will not have destroyed everything unless we destroy even the ruins."

## WEATHER

Forecast for Sunday through Tuesday, as provided by Accu-Weather.

## Europe

	Today	High	Low	Tomorrow	High	Low	W
Algeria	21/10	11/52	2/17	12/53	2/17	12/53	pc
Amsterdam	8/46	4/39	pc	8/46	4/39	pc	
Ankara	4/29	4/19	pc	3/27	4/29	pc	
Athens	12/53	3/27	1/45	7/44	3/27	1/45	s
Batavia	17/68	8/49	10/58	11/52	8/49	10/58	s
Belgrade	7/44	4/24	4/28	1/21	4/28	1/21	pc
Bombay	8/49	4/29	pc	8/49	4/29	pc	
Buenos Aires	7/44	4/24	4/28	1/21	4/28	1/21	pc
Buenos Aires	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cairo	3/27	2/28	3/27	1/21	4/28	1/21	pc
Canton	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cebu	3/27	2/28	3/27	1/21	4/28	1/21	pc
Dublin	11/52	7/44	4/28	11/52	7/44	4/28	pc
Hankow	8/49	4/29	pc	8/49	4/29	pc	
Hong Kong	8/49	4/29	pc	8/49	4/29	pc	
Kobe	8/49	4/29	pc	8/49	4/29	pc	
London	8/49	4/29	pc	8/49	4/29	pc	
Lyons	8/49	4/29	pc	8/49	4/29	pc	
Moscow	8/49	4/29	pc	8/49	4/29	pc	
Paris	8/49	4/29	pc	8/49	4/29	pc	
Shanghai	8/49	4/29	pc	8/49	4/29	pc	
Singapore	8/49	4/29	pc	8/49	4/29	pc	
Tokyo	8/49	4/29	pc	8/49	4/29	pc	
Yokohama	8/49	4/29	pc	8/49	4/29	pc	



**North America**  
Heavy snow will reach from New York State into southern Canada as a powerful storm moves along the coast. Strong winds and extreme cold will follow the storm for a couple of days with drifting snow. The chill will plunge deep into the Southwest. The West will remain dry.

	Today	High	Low	Tomorrow	High	Low	W
Abu Dhabi	28/73	21/70	pc	28/73	21/70	pc	
Algeria	18/61	10/52	2/17	12/53	2/17	12/53	pc
Amsterdam	8/46	4/39	pc	8/46	4/39	pc	
Ankara	4/29	4/19	pc	3/27	4/29	pc	
Athens	12/53	3/27	1/45	7/44	3/27	1/45	s
Batavia	17/68	8/49	10/58	11/52	8/49	10/58	s
Belgrade	7/44	4/24	4/28	1/21	4/28	1/21	pc
Bombay	8/49	4/29	pc	8/49	4/29	pc	
Buenos Aires	7/44	4/24	4/28	1/21	4/28	1/21	pc
Buenos Aires	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cairo	3/27	2/28	3/27	1/21	4/28	1/21	pc
Canton	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cebu	3/27	2/28	3/27	1/21	4/28	1/21	pc
Dublin	11/52	7/44	4/28	11/52	7/44	4/28	pc
Hankow	8/49	4/29	pc	8/49	4/29	pc	
Hong Kong	8/49	4/29	pc	8/49	4/29	pc	
Kobe	8/49	4/29	pc	8/49	4/29	pc	
London	8/49	4/29	pc	8/49	4/29	pc	
Lyons	8/49	4/29	pc	8/49	4/29	pc	
Moscow	8/49	4/29	pc	8/49	4/29	pc	
Paris	8/49	4/29	pc	8/49	4/29	pc	
Shanghai	8/49	4/29	pc	8/49	4/29	pc	
Singapore	8/49	4/29	pc	8/49	4/29	pc	
Tokyo	8/49	4/29	pc	8/49	4/29	pc	
Yokohama	8/49	4/29	pc	8/49	4/29	pc	

Legend: sunny, pc-partly cloudy, c-cloudy, sh-showers, th-thunderstorms, f-fog, dr-droplets, r-rain, s-snow, fl-flooding, h-haze, v-volcanic ash, w-wind, v-volcanic ash.

## Asia

	Today	High	Low	Tomorrow	High	Low	W
Bangkok	28/73	21/70	pc	28/73	21/70	pc	
Beijing	1/24	4/19	pc	1/24	4/19	pc	
Bombay	16/61	10/52	2/17	12/53	2/17	12/53	pc
Buenos Aires	7/44	4/24	4/28	1/21	4/28	1/21	pc
Buenos Aires	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cairo	3/27	2/28	3/27	1/21	4/28	1/21	pc
Canton	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cebu	3/27	2/28	3/27	1/21	4/28	1/21	pc
Dublin	11/52	7/44	4/28	11/52	7/44	4/28	pc
Hankow	8/49	4/29	pc	8/49	4/29	pc	
Hong Kong	8/49	4/29	pc	8/49	4/29	pc	
Kobe	8/49	4/29	pc	8/49	4/29	pc	
London	8/49	4/29	pc	8/49	4/29	pc	
Lyons	8/49	4/29	pc	8/49	4/29	pc	
Moscow	8/49	4/29	pc	8/49	4/29	pc	
Paris	8/49	4/29	pc	8/49	4/29	pc	
Shanghai	8/49	4/29	pc	8/49	4/29	pc	
Singapore	8/49	4/29	pc	8/49	4/29	pc	
Tokyo	8/49	4/29	pc	8/49	4/29	pc	
Yokohama	8/49	4/29	pc	8/49	4/29	pc	

Legend: sunny, pc-partly cloudy, c-cloudy, sh-showers, th-thunderstorms, f-fog, dr-droplets, r-rain, s-snow, fl-flooding, h-haze, v-volcanic ash, w-wind, v-volcanic ash.

## Latin America

	Today	High	Low	Tomorrow	High	Low	W
Buenos Aires	28/73	21/70	pc	28/73	21/70	pc	
Buenos Aires	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cairo	3/27	2/28	3/27	1/21	4/28	1/21	pc
Canton	3/27	2/28	3/27	1/21	4/28	1/21	pc
Cebu	3/27	2/28	3/27	1/21	4/28	1/21	pc
Dublin	11/52	7/44	4/28	11/52	7/44	4/28	pc
Hankow	8/49	4/29	pc	8/49	4/29	pc	
Hong Kong	8/49	4/29	pc	8/49	4/29	pc	
Kobe	8/49	4/29	pc	8/49	4/29	pc	
London	8/49	4/29	pc	8/49	4/29	pc	
Lyons	8/49	4/29	pc	8/49	4/29	pc	
Moscow	8/49	4/29	pc	8/49	4/29	pc	
Paris	8/49	4/29	pc	8/49	4/29	pc	
Shanghai	8/49	4/29	pc	8/49	4/29	pc	
Singapore	8/49	4/29	pc	8/49	4/29	pc	
Tokyo	8/49	4/29	pc	8/49	4/29	pc	
Yokohama	8/49	4/29	pc	8/49	4/29	pc	

Legend: sunny, pc-partly cloudy, c-cloudy, sh-showers, th-thunderstorms, f-fog, dr-droplets, r-rain, s-snow, fl-flooding, h-haze, v-volcanic ash, w-wind, v-volcanic ash.

## Africa

is a gown belonging to his wife, the former singer Regina Resnik, which she wore in performance at the Metropolitan Opera. The 60 "Threepenny Opera" paintings, which Blatas, 82, worked on for 50 years were to be donated to a museum in Dessau, Germany, the birthplace of Kurt Weill.

□

The pop star Elton John and the cellist Mstislav Rostropovich were awarded Sweden's Polar Music Prize, founded by Stikkan Anderson, former manager for the Swedish pop group ABBA.

□

After two months of agonizing, the producers of "Les Parents Terribles," a play by Jean Cocteau that will open in April at Broadway, have come up with a title suitable for English-speaking audiences. (Presumably the thousands who made the play a hit in London were all French.) The runners-up: "Terrible Parents," "Infidelities," "Liars and Lovers," "Parents From Hell" and "Intimate Relations." The winner: "Indiscretions." Why the translation? The unsophisticated might think the play was in French, said Gerald Schoenfeld of the Shubert organization, a lead producer.